# COMPTON
## PETROLEUM CORPORATION

Annual Report 2001

depth of resources

COMPTON

PETROLEUM CORPORATION

**Compton Petroleum Corporation** is a Calgary-based independent public company actively engaged in the exploration, development and production of natural gas, natural gas liquids and crude oil in the Western Canadian Sedimentary Basin. The Company's capital stock is listed and trades on The Toronto Stock Exchange (TSE) under the trading symbol CMT, and is included in both the S&P/TSE Composite Index and the TSE Mid-Cap Index.

Compton commenced operations in 1993 with $1 million of share capital, a small dedicated technical team and a large seismic data base. The objective was to build a company from the grassroots through internal full-cycle exploration, complemented by strategic acquisitions. Compton's goal was to create a company capable of long-term sustained growth with a primary focus on natural gas. Compton's focus and strategy have remained unchanged since inception. Eight years later, in 2001, the Company had attained average production of 23,404 boe per day (6:1), long-life established reserves of 83.7 million boe (6:1), control of more than 1,500 sections of undeveloped land and a total net asset value in excess of one-half billion dollars.

**The Annual General Meeting** of Shareholders will be held on Tuesday, June 4, 2002 at 3:30 p.m. at the Calgary Chamber of Commerce, The Historical Ballroom, 517 Centre Street South, Calgary, Alberta, Canada.

# think depth...

## depth of performance

Compton Petroleum Corporation has attained record financial and operating results in each year since inception. In 2001, a year of volatile oil and gas prices, the Company again achieved record numbers. [more on pages 2-7]

## depth of opportunity

Compton has over 300 drilling prospects in inventory, including 90 natural gas locations in the Hooker area of Southern Alberta. The Company's inventory includes a mix of low to higher risk prospects at depths ranging from less than 1,000 metres to nearly 4,000 metres. [more on pages 14-15]

## depth of technical expertise

Compton is one of the few companies in the Canadian oil and gas industry that is focused on natural gas plays at greater depths. This has led to an internally-generated opportunity base involving major natural gas reserves in Southern Alberta and a mix of light crude oil and natural gas reserves in three other core areas within the province.
[more on pages 16-17]

## depth of people

Led by a group of experienced executives, managers and directors with a high level of ownership, and supported by a strong team of 80 people, Compton is able to mount an aggressive and successful exploration and development program each year. [more on pages 58-59]

# 2001 financial and operating highlights

## Financial

| ($000s except per share amounts) | 2001 | 2000 | % Change |
|---|---|---|---|
| Total revenue | **244,970** | 213,376 | 15 |
| **Cash flow from operations** | **128,334** | 117,533 | 9 |
| Per share – basic | **1.17** | 1.10 | 6 |
| – diluted | **1.12** | 1.06 | 6 |
| **Net earnings** | **55,636** | 40,059 | 39 |
| Per share – basic | **0.51** | 0.37 | 38 |
| – diluted | **0.48** | 0.36 | 33 |
| Capital expenditures | **190,467** | 118,472 | 61 |
| Corporate debt, net | **208,299** | 153,440 | 36 |
| Shareholders' equity | **217,860** | 157,796 | 38 |
| Return on average equity (%) | **30%** | 29% | |
| Weighted average shares (000s) | | | |
| – basic | **109,881** | 106,904 | |
| – diluted | **114,844** | 110,645 | |

## Operating

| (6:1 boe conversion) | 2001 | 2000 | % Change |
|---|---|---|---|
| Average daily production: | | | |
| Natural gas (mmcf/d) | **101.1** | 85.1 | 19 |
| Liquids (light oil & ngls) (bbls/d) | **6,546** | 6,305 | 4 |
| **Total oil equivalent (boe/d)** | **23,404** | 20,488 | 14 |
| Average pricing: | | | |
| Natural gas ($/mcf) | **4.77** | 4.55 | 5 |
| Liquids (light oil & ngls) ($/bbl) | **28.83** | 31.29 | (8) |
| Total oil equivalent ($/boe) | **28.68** | 28.53 | 1 |
| Field operating netback ($/boe) | **17.42** | 18.33 | (5) |
| Cash flow netback ($/boe) | **15.01** | 15.72 | (4) |
| Undeveloped land: | | | |
| Gross acres | **962,259** | 808,400 | 19 |
| **Net acres** | **700,695** | 610,640 | 15 |
| Average working interest | **73%** | 76% | |
| Reserves: | | | |
| Proved oil equivalent (mboe) | **71,754** | 61,014 | 18 |
| **Established oil equivalent (mboe)** | **83,675** | 72,976 | 15 |
| Finding & development costs: | | | |
| Proved ($/boe) | **9.88** | 8.67 | 14 |
| Established ($/boe) | **9.90** | 7.11 | 39 |
| Recycle ratio: | | | |
| Proved | **1.5** | 1.8 | (17) |
| Established | **1.5** | 2.2 | (32) |
| Reserves replacement: | | | |
| Proved | **2.3** | 1.8 | 28 |
| **Established** | **2.3** | 2.2 | 5 |

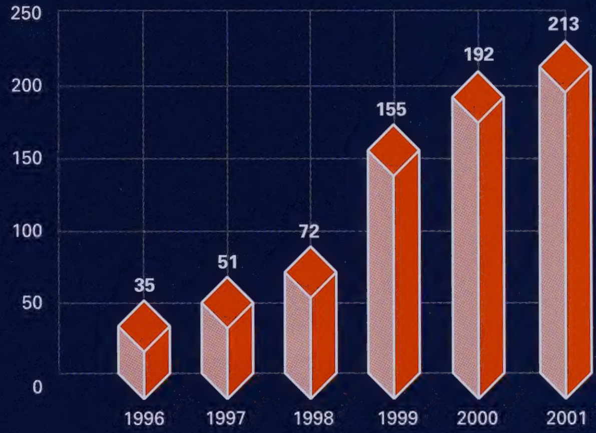
# generating value

for our shareholders

## Production Per Million Shares

(boe/d 6:1 per million shares)

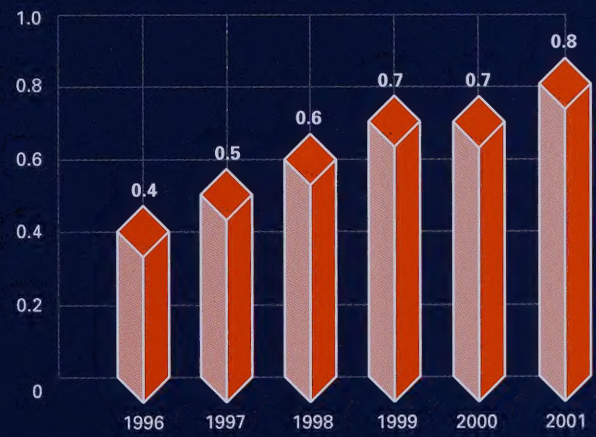
From 1996 to 2001, Compton increased its production per million shares by 509 percent, both through the drill bit and strategic acquisitions, reflecting a very strong technical exploration and engineering team.




## Reserves Per Share

(established boe reserves 6:1 per share)

Over the same period, Compton increased its established reserves per share by 87 percent.



# depth of performance

**962,000**

gross acres of undeveloped land

**84**

million boe of established reserves

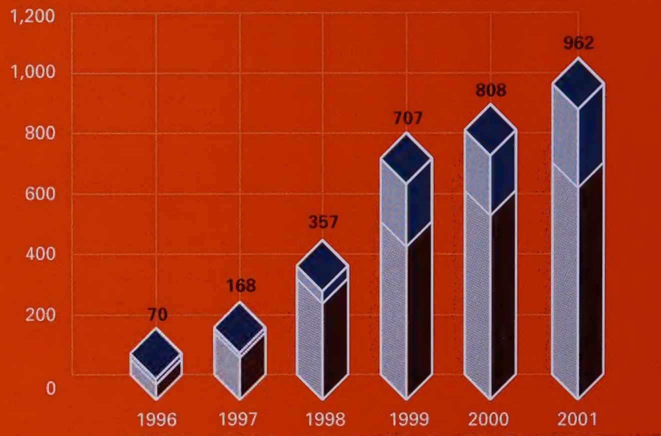
**$6.21**

F&D five-year average on an established reserves basis

## Undeveloped Land

(000 acres)

Compton has an average working interest of 73 percent in its land portfolio.

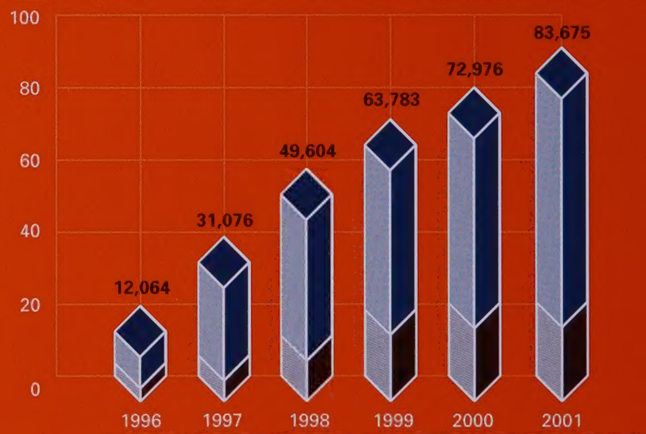



Gross
Net

## Established Reserves

(mboe) (6:1)

Natural gas accounts for 80 percent of Compton's established reserves. Of the total established reserves, 76 percent are proved developed reserves.

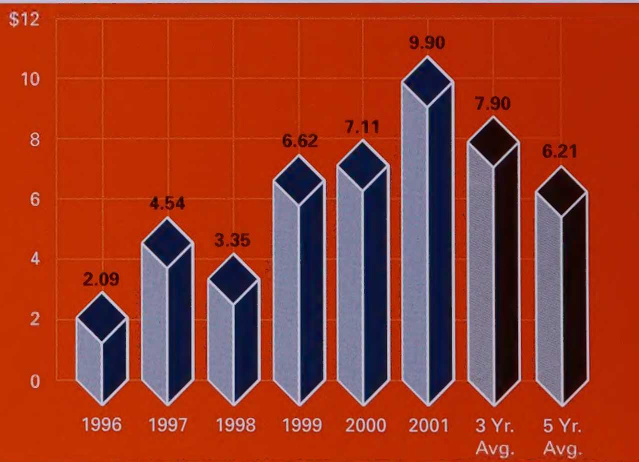



Gas
Liquids (oil & ngls)

## Finding and Development Costs

(established per boe) (6:1)

Compton's competitive finding and development costs reflect the Company's successful full-cycle exploration program and technical expertise.



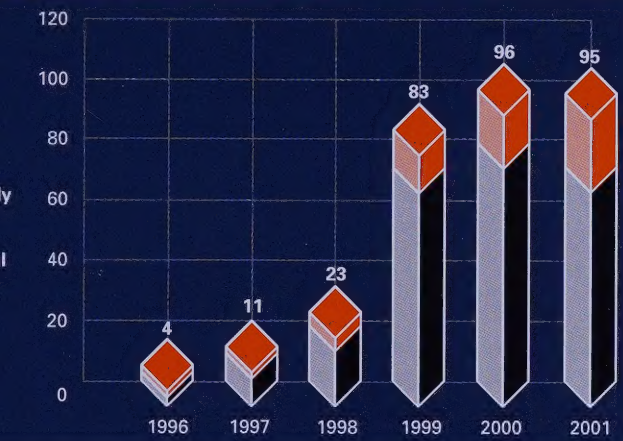
## Wells Drilled

(total)

The average depth of Compton's 2001 drilling program was approximately 1,800 metres, or nearly twice as deep as the typical Alberta shallow gas well.

Gross Wells

Net Wells




**95**

wells drilled in 2001

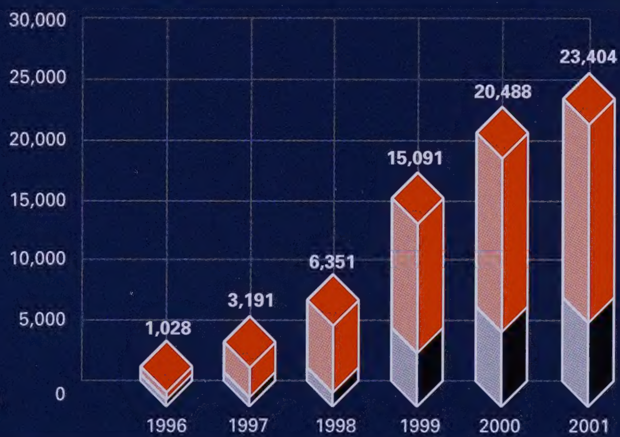
## Production

(boe/d) (6:1)

In 2001, Compton's production increased by 14 percent over 2000, with a 72 percent weighting towards natural gas.

Gas

Liquids (oil & ngls)



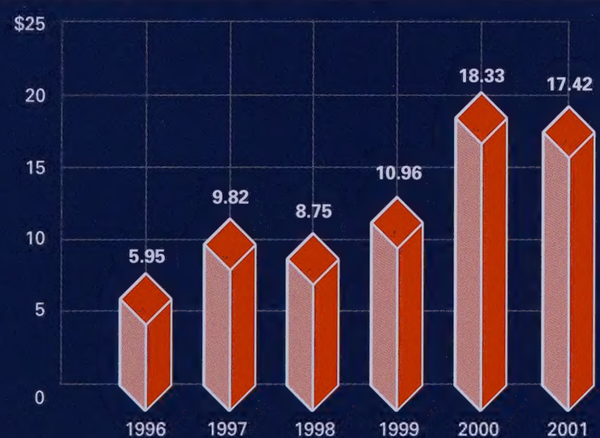

**23,404**

boe per day average production in 2001

## Field Netbacks

($/boe) (6:1)

Compton's strong field netbacks in the last few years continue to build the financial base for reinvestment.




**$17.42**

per boe field netback in 2001

# track record of value creation

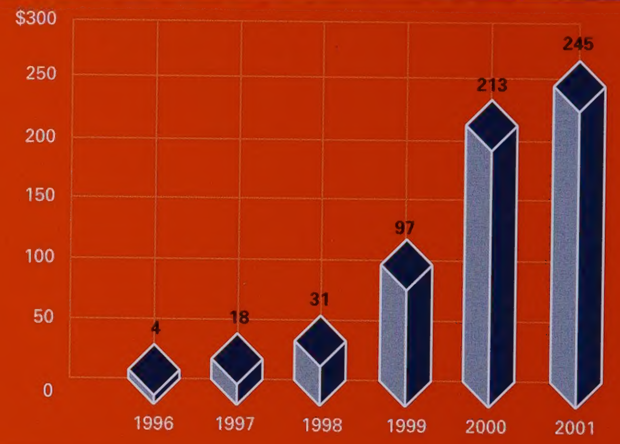
**$245**

million revenue in 2001

## Total Revenue

($ millions)

In 2001, despite flat commodity prices, the Company generated a 15 percent increase in revenue over 2000 due to higher production volumes.



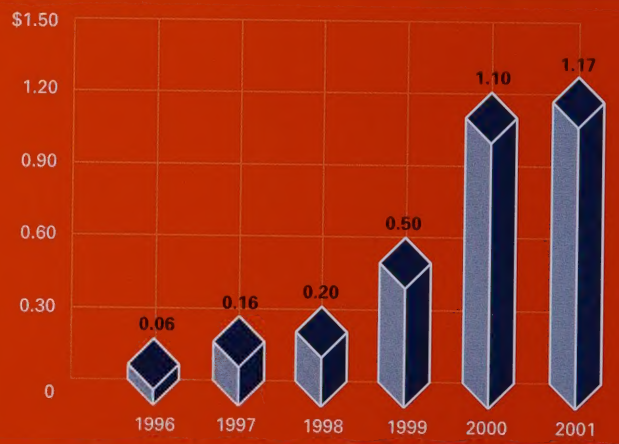

**$1.17**

cash flow per share in 2001

## Cash Flow

($/share)

Higher cash flow per share reflects Compton's successful full-cycle exploration program, growing production, cost control and stronger commodity prices.



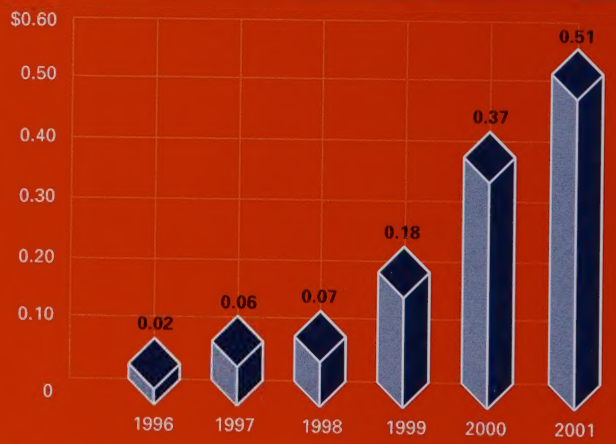

**$0.51**

net earnings per share in 2001

## Net Earnings

($/share)

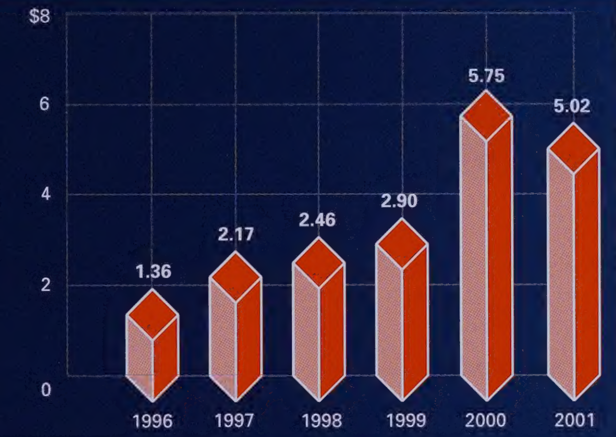
Net earnings per share grew by 38 percent in 2001, a strong indicator of Compton's financial success. Compton achieved a 29 percent return on net revenue in 2001.



## Net Asset Value

($/share)

The sharp decline in commodity prices in the last half of 2001 resulted in a 13 percent decline in net asset value. The long-term outlook for natural gas prices is strong and Compton anticipates a quick recovery in its net asset value.




# $5.02

net asset value per share

## Market Capitalization

($ millions)

The upward trend in Compton's market capitalization reflects strong share price appreciation and investor confidence.

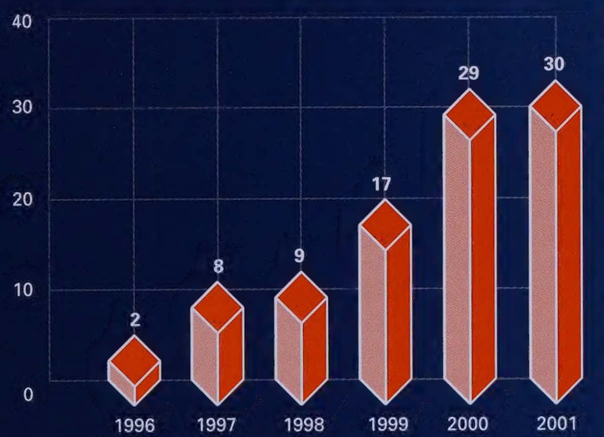

# $475

million year-end 2001 market capitalization

## Return on Equity

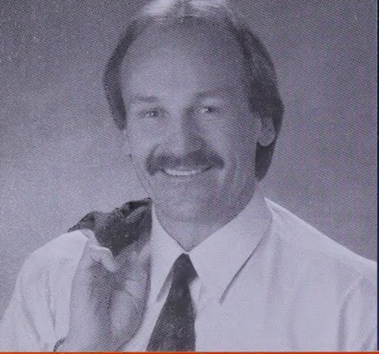
(%) (based on average equity)

Successful full-cycle exploration, cost control and profitable growth resulted in a record return on equity for the year.




# 30%

return on shareholders equity



# president's

## letter to our shareholders

**ERNIE SAPIEHA,** C.A.
*President & Chief Executive Officer, Director*

I am proud to present and comment on our 2001 record financial and operating results. This 2001 annual report reflects Compton's continued ability to deliver strong results in a challenging environment.

### DEPTH OF RESOURCES

Our commitment from the beginning was to build a natural gas focused company capable of long-term growth in an industry characterized by volatility. Compton recognized that in order to position a company for long-term prosperity, a strength and a depth of resources in all areas would be needed. Foremost are:

- Quality people and teamwork;
- Deep natural gas drilling expertise;
- Solid, long-life, deep natural gas reserves;
- Extensive, internally generated prospect inventory;
- Large gas-prone land base;
- Control of pipelines and facilities; and
- Established performance – a track record of eight successful years.

Compton's depth of resources has allowed us to continue with long-term profitable growth because of our technical expertise, substantial land base, extensive inventory of quality internally-generated prospects, significant long-life natural gas reserves and deep gas drilling expertise. In 2001 Compton did not have, nor have we had in the past, any material revisions to our corporate reserve reports. Our reserves are characterized as quality, long-life reserves with low decline rates. We have continually delivered positive earnings, recorded no ceiling test write-downs and our depletion and depreciation on a per unit of production is very good. Our depth of resources and strong foundation will continue to generate significant shareholder value in the years to come.

### COMPETITIVE ADVANTAGE

Compton, since inception, has focused on natural gas targets and over the years has developed an expertise in deep tight gas and an accompanying extensive prospect inventory with a large land base. The oil and gas industry in Canada has traditionally concentrated on shallower gas in the Western Canadian Sedimentary Basin (WCSB). Compton's deep natural gas drilling targets average from 2,200 to 3,500 metres per well – albeit at a higher degree of risk and cost. Compton has established a temporary competitive advantage. The Canadian industry is now moving to concentrate on deep natural gas. The U.S. oil and gas industry has been drilling for deep gas for a long time and has now shifted its concentration squarely to Canada, and particularly within the WCSB, due to its deep gas potential.

**depth of**

# people

**Compton has the experienced professionals who understand what it takes to successfully manage an intermediate full-cycle exploration company.**

## YEAR 2001 REVIEW

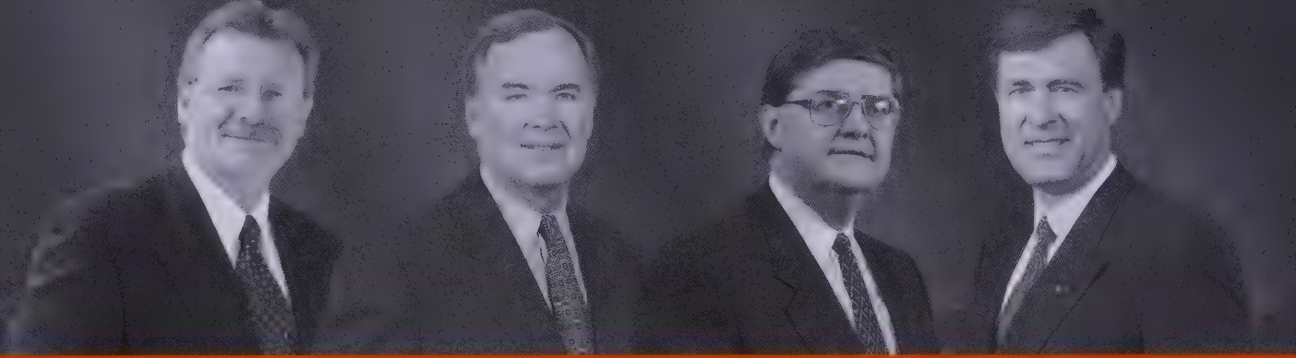
Our corporate strategy has successfully carried Compton through a very volatile year. Compton has always recognized the extreme volatility of the oil and gas industry and 2001 has demonstrated this very fact. Despite a sharp decrease in commodity prices in the second half of 2001, Compton realized record revenue, cash flow, earnings and production. We were also successful in expanding our large undeveloped land base and corporate reserves base.

Successful long-term companies such as Compton establish unique growth strategies and a depth of high quality resources to continually prosper in all cycles of the business. Compton has thrived in all cycles. We recognize the volatility and the opportunities created in each cycle. We are positioned as a natural gas levered intermediate – one of the few remaining in the Canadian oil and gas sector.

Compton's successful execution of its strategy was reflected in our 2001 results. We demonstrated growth despite the second-half collapse in demand, lower commodity prices, depressed equity markets, and the high service sector costs during the year. We grew by focusing on internally generated prospects supplemented by the small strategic acquisition of Hornet Energy Ltd. in our core Southern Alberta area to further consolidate working interests and expand our operatorship. Drilling of approximately 100 wells was balanced 50 percent exploratory and 50 percent development with a 76 percent drilling success rate. Our average well depth was approximately 1,800 metres with an all-in finding and development (F&D) cost, including acquisitions, of $9.88 per boe, with a land and seismic component in F&D of $1.58 per boe. These are strong results, especially given the volatile and high cost environment of 2001. Compton's five year average F&D cost is $6.21 per boe, reflecting Compton's ability to efficiently explore for and produce natural gas and crude oil throughout industry cycles.

In 2001, Compton's proved reserves increased by 18 percent while established reserves increased by 15 percent to 83.7 million boe (6:1), with a reserve replacement of 2.3 times production. Average daily production increased by 14 percent to 23,404 boe (6:1) per day.

*Compton's share price continues to outperform both the TSE 300 Composite Index and the TSE Oil and Gas Producers Index, providing shareholders a greater investment return.*



**JEFF SMITH,** P.Geol.
*Director*

**JOHN PRESTON,**
*Director*

**IRV KOOP,** P.Eng
*Director*

**MEL BELICH,** Q.C.
*Director & Chairman*

Cash flow was up by 9 percent to $128.3 million, notwithstanding the relatively flat average prices in 2001 from 2000. Prices were very high in the first quarter and collapsed in the third and fourth quarters of 2001. The Company's return on equity was a strong 30 percent.

The Company's 2001 drilling and exploration programs were very successful, adding to our high quality reserves base. Highlights included our gas results in southern Alberta, light oil development in the Peace River Arch and the further exploration potential identified in Rainbow and Southern Alberta. Our solid exploration programs have years of growth and we continue to control our destiny with high working interests and dominance in our core areas, where 92 percent of our production is operated.

In Southern Alberta, our flagship deep Basal Quartz natural gas play at Hooker continues to be outstanding. This deep play, which was internally generated and developed by Compton, has over 150 prospective sections of assembled lands. This area has the potential in the next few years to add one-half tcf of net gas to Compton's reserves, or in other words, double our existing corporate natural gas reserves and production. At December 31, 2001 Compton's established reserves at Hooker were 161 bcfe, double the 83 bcfe from the previous year.

In addition to Hooker, another high quality play is our medium depth sandstone play in the Brant/Centron area of Southern Alberta. This is a play with a large undeveloped land base, solid, low decline reserves, operatorship and infrastructure, which has many years of drilling remaining. In the Okotoks-Mazeppa area, our deep Crossfield pools continue to produce natural gas with minimal declines. These reserves offer high quality exploitation potential and increased production through horizontal drilling.

Our large undeveloped land base in Southern Alberta, with year-round access, has at a minimum, four to five years of exploration and growth potential.

In the Peace River Arch, Compton has been successfully developing and exploiting its light oil at Cecil/Worsley. We look to add 7 million to 10 million net boe of light oil to our reserves base in the next few years through infill development drilling and waterflooding – a great project which has the potential to double our existing corporate light oil reserves base in the next few years. We are also pursuing and exploring for Kiskantinaw gas very aggressively. The Peace River Arch holds a lot of potential for Compton.

The Rainbow area continues to become more and more promising for Compton. We are working hard from an exploration point of view and the surrounding lands are being extensively drilled by industry competitors with promising results. In 2001, Compton spent a minimal amount of capital in this area due to low commodity prices and winter-only drilling access. However, as higher gas prices return and concepts are further developed, Compton plans to become more aggressive with the drill bit in this area in the next few years.

At Bigoray, our solid quality light oil reserves and low decline production continue to produce excellent cash flow. Drilling results only replaced production in 2001, but we remain very keen

**NORM KNECHT,** C.A.
*VP Finance & Chief Financial Officer*

**KIM DAVIES,** P.Geoph.
*VP Exploration*

**MURRAY STODALKA,** P.Eng.
*VP Operations*

**TIM MILLAR,** LLB
*Corporate Secretary*

on Bigoray and its multi-zone potential. Drilling in other parts of central Alberta was more encouraging, resulting in three gas wells at Rosevear, one at Halkirk and two at Gilby/Wilson Creek.

## GOING FORWARD IN 2002

2001 was characterized by robust commodity prices in the early part of the year, industry consolidation with acquisitions conducted at very high prices, high service sector costs, record drilling, and the subsequent collapse of the economy, commodity prices and equity values. With year-end commodity prices dramatically lower than the start of the year, we exited 2001 with a very cautious and conservative approach to 2002.

We anticipate the first half of 2002 will be very volatile, with a return to stability, market confidence and economic prosperity occurring in the third quarter and beyond. Natural gas continues to be the commodity of the future and the downturn in the cycle should be short lived. We anticipate Nymex gas prices to stabilize between US$3.50 and US$4.00 per mcf and oil (WTI) prices between US$23.00 and US$25.00 per bbl in the third quarter of 2002.

Compton's 2002 capital expenditure program is focused in our core areas and is based on a conservative commodity pricing scenario. Compton is presently budgeting to drill a minimum 70-75 wells and to incur capital expenditures of $100 million in 2002 based upon average commodity price assumptions of US$20.00 per barrel of oil (WTI) and US$2.85 per mcf of gas (Henry Hub Nymex). Approximately 65 percent of our capital program is developmental in nature with 35 percent targeting exploration activities. This spending composition varies from prior years where the capital program was equally split between exploration and development. The focus in 2002 on more development projects reflects Compton's ability and intention to develop and exploit its successful exploration prospects.

We plan to spend our budgeted cash flow and are poised with an abundance of prospects to quickly expand our activities in response to strengthened and stabilized prices.

Compton will continue its growth strategy, focusing on natural gas through internally-generated prospects on our extensive land base in Southern Alberta and the Peace River Arch. If the opportunity presents itself, we will complement this exploration and development program with strategic property or corporate acquisitions in our core areas. Additionally, in Rainbow/Zama, a very promising long-term growth area, Compton will continue to explore, expending minimal capital in anticipation of stabilized economic prices and a lower risk profile. Compton will also look to expand its deep gas holdings if an opportunity for a large land base, where we have direct expertise, should arise.

Compton is a focused company comprised of outstanding people with deep gas and light oil expertise. Compton has the unique potential to double its existing reserves and production within the next few years from internally-generated prospects on its existing land holdings. This potential combined with a return to stable commodity prices, as we believe will soon occur, creates promising upside for our shareholders.

**MARC JUNGHANS,** P.Geol.
*Exploration Manager*

**TERRY MAH,** P.Eng.
*Engineering Manager*

**GREG SHPYTKOVSKY,** C.E.T.
*Drilling Manager*

**WADE MROCHUK,** C.E.T.
*Production Superintendent*

**THERESA KOSEK,** C.A.
*Accounting Manager*

**JERRY SAPIEHA,** C.A.
*Treasurer*

**GARY FOLLENSBEE,** P.Eng.
*Acquisitions Manager*

**GARRY MCCULLOUGH,** P.Land
*Land Manager*

**DEAN BERNHARD,** C.M.A.
*Finance Manager*

Compton has grown significantly since 1993 to an intermediate company with a market value in excess of one-half billion dollars. With the ability, from internally generated prospects, to double the Company's value within the next two to three years – our future is bright.

## ACKNOWLEDGEMENTS

I look back at 2001 and marvel at the volatility and tremendous changes that have occurred within the industry. Compton has emerged as a strong intermediate company, continually moving ahead with very good results and great potential. Compton's people – our most important asset – faced the challenges with great enthusiasm, discipline and teamwork.

Compton is a team of dedicated and experienced people, with a high level of ownership, focused on the same goals as our shareholders – continually raising the bar to maximize our assets and shareholder value. Strong companies, with a depth of resources and a sound strategy, that remain driven to exploit their strengths, will have a great future and continue to thrive in all cycles.

Stewardship and governance of a successful and growing oil and gas company is very challenging and complex. It requires experience and understanding of the business and the risks. One of Compton's key reasons for success and consistent results is the contribution made by an outstanding Board of Directors and the high quality corporate governance they provide. Our well-respected Board has a complementary wealth of large-company experience in all aspects of the oil and gas industry. Compton's Board is comprised of five members, four of whom are independent, with all directors holding a significant personal investment in Compton. The very challenging Board is an outstanding asset for Compton, as its members continually look out for the best interests of all shareholders.

Compton has the experienced people and systems in place to successfully manage an intermediate full-cycle exploration company. We understand what it takes to manage this complex and challenging business. We have grown with a strong emphasis on fundamentals.

My sincere appreciation and thanks go out to everyone at Compton. From the moment of entering our office, to walking through each department, to visiting our field locations, the people at Compton continue to display that same Compton pride and great attitude to succeed.

Our strong 2001 results could not have occurred without the dedicated and enthusiastic teamwork of Compton's people, combined with the support of our families, friends and shareholders. We thank them for their continued support.

On behalf of the Board of Directors

E. G. Sapieha, C.A.
President and Chief Executive Officer

# operations review

## depth of opportunity base

In six years, Compton has built an extensive inventory of internally-generated prospects, ranging from deep natural gas plays to light oil projects across the Company's four core operating areas.

## depth of technical expertise

Compton balances the risk of its deep drilling program with a seasoned team of explorationists and engineers, who are able to apply geological concepts and seismic interpretation, with engineering expertise, to produce effective exploration models.

## depth of drilling

Compton is one of the deeper drillers among Canadian oil and gas companies within the Western Canadian Sedimentary Basin. The Company's drilling program in 2001 targeted wells with an average depth of approximately 1,800 metres or 6,000 feet.

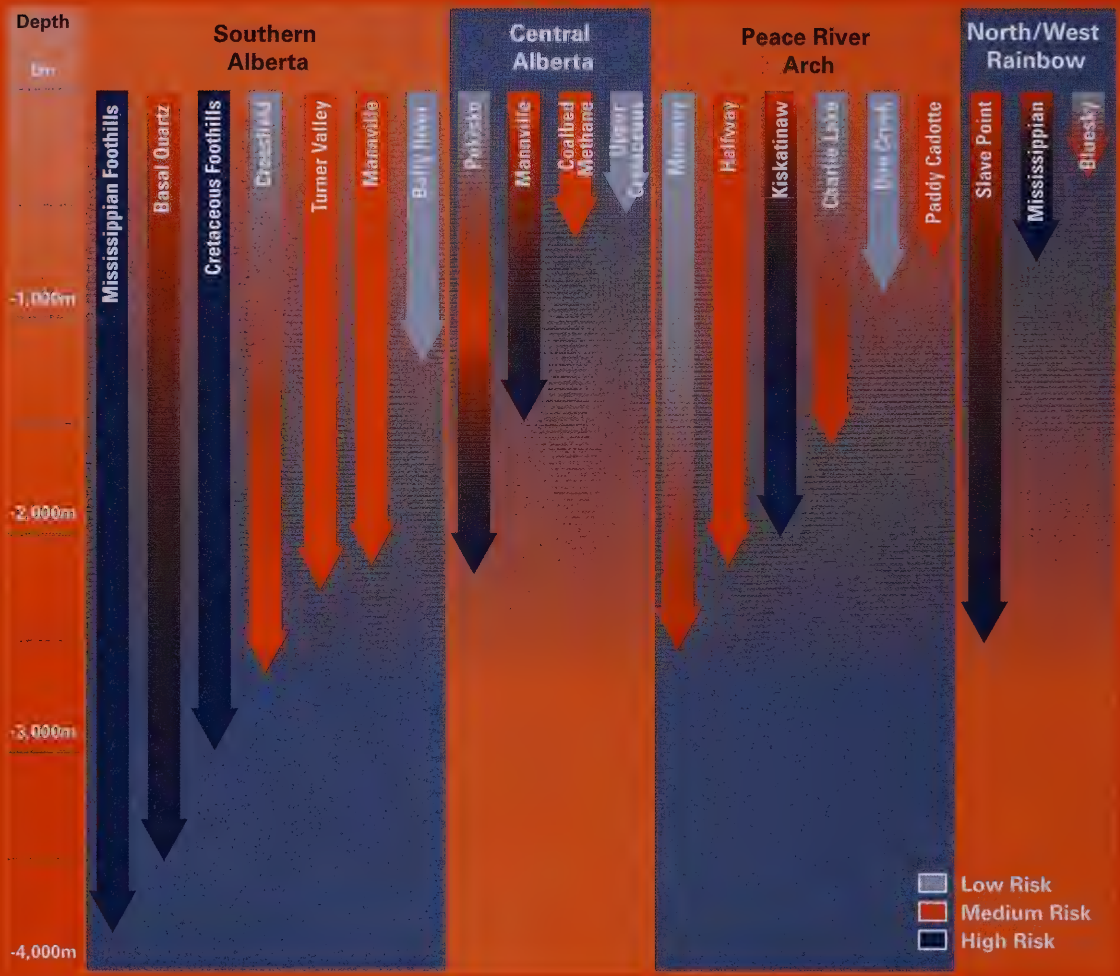
## depth of reserves

At year-end 2001 Compton had established reserves of 84 million boe (6:1). The Company's technical expertise has found large quality reservoirs with long-life, low decline reserves.

depth of

# opportunity

Compton's prospect inventory, which includes over 300 identified drilling prospects, ranges from low risk, lower cost development plays to higher risk, higher reward plays.

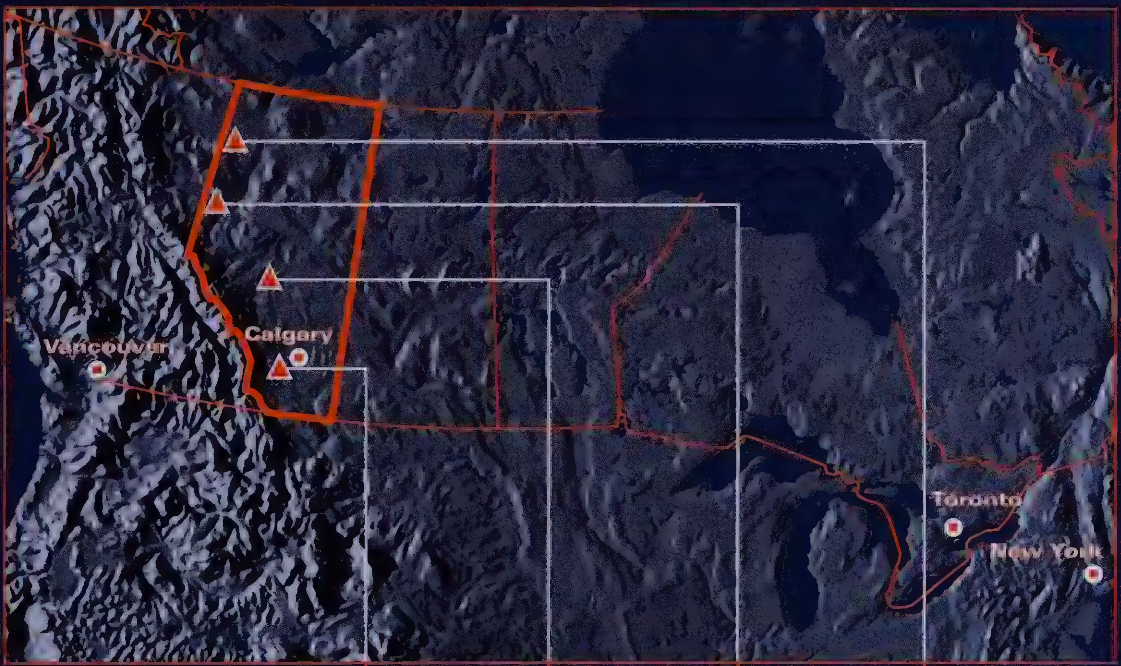



The opportunity base includes wells capable of producing 0.15 to 10 mmcf per day, with established reserves of 0.5 to 20 bcf each. The inventory includes a large variety of play types and reflects Compton's expertise in deep tight sands that are prospective for natural gas.

snapshot of

# core areas

Compton's full-cycle exploration program combines a high degree of drilling success and a large undeveloped gas prone land base.




| Core Operating Area | Southern Alberta | Central Alberta | Peace River Arch | Northern Alberta | Total |
|---|---|---|---|---|---|
| Undeveloped Land (net sections) | 543 | 183 | 124 | 198 | 1,048 |
| 2001 Annual Average Production (boe/day) (6:1) | 11,228 | 6,656 | 4,677 | 843 | 23,404 |
| 2001 Wells Drilled | 52 | 22 | 16 | 5 | 95 |
| 2002 Wells Targeted | 45 | 10 | 15 | 5 | 75 |
| 2002 Projected Capital Expenditures ($ millions) | 60 | 13 | 22 | 5 | 100 |

achieving a

# competitive advantage

## Deeper gas plays and strategic land assembly mark Compton's competitive advantage.


From inception, Compton sought to achieve profitability through the application of technical expertise to new and underdeveloped play concepts that offered high potential rewards with moderate risk. Beginning with a core group of senior technical professionals and a large seismic database in four areas, we initially focused on Southern Alberta, where concepts vary from conventional to tight gas, pay zones in both carbonate and sandstone rock.

Compton concentrated on deep natural gas plays, where higher drilling costs are more than offset by higher reserves per well, lower decline rates, and less competition from traditional shallow gas players. In conjunction with utilizing technological advances in deep drilling and completion techniques, the Company minimized risk by carefully applying geologic concepts and seismic interpretation to produce effective exploration models. The presence of numerous pay zones meant Compton was not dependent on a single reservoir trend. The Company's geologic team often tested concepts by acquiring old standing wellbores and recompleting zones or drilling lateral extensions, rather than risking new wildcat wells. This minimized our financial exposure until the concept was proven. By choosing overlooked plays, we were able to assemble extensive acreage positions at high working interests. The net result is that Compton today is developing major deep gas reserves in the immediate vicinity of Calgary.

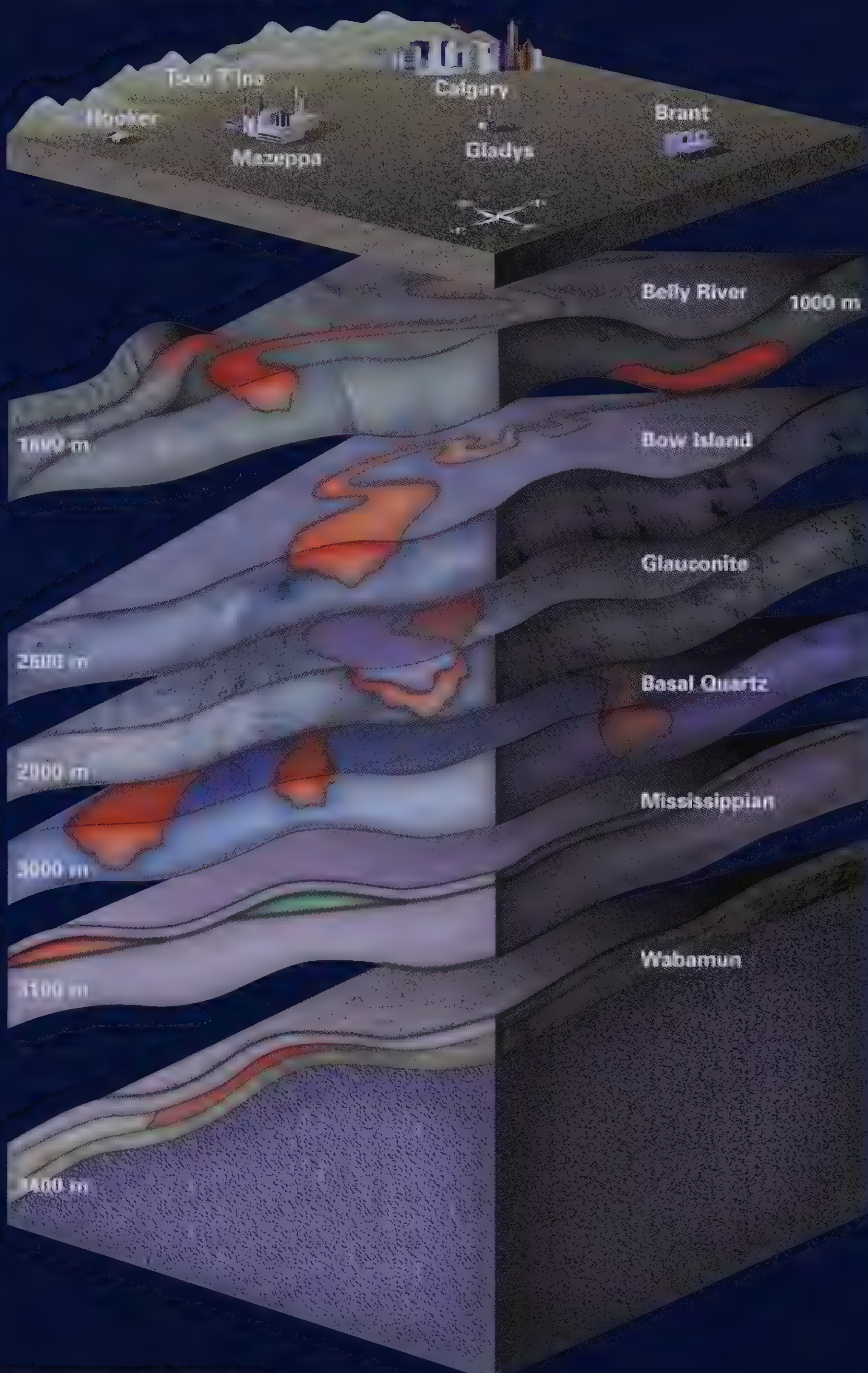
Compton's increasing expertise in Southern Alberta gave us the confidence to expand to other areas, specifically central and northwestern Alberta, which we pursued through internally-generated ideas and corporate acquisitions. We enhanced our technical team through the addition of seasoned professionals with experience in all core areas.

Compton's extensive experience and technical knowledge with deep, tight gas reservoirs affords the Company a competitive advantage within the oil and gas industry. The trend in the Western Canadian Sedimentary Basin (WCSB) is toward tighter sands. Although the industry consensus points to a maturing resource basin, there is still significant natural gas to be discovered in deeper plays. Drilling in the WCSB is beginning to target deeper prospects in the Foothills and the Rocky Mountain Disturbed Belt. Compton is well positioned to take advantage of its technical expertise and apply this knowledge to the Company's existing core areas and potentially elsewhere within the WCSB.

depth of

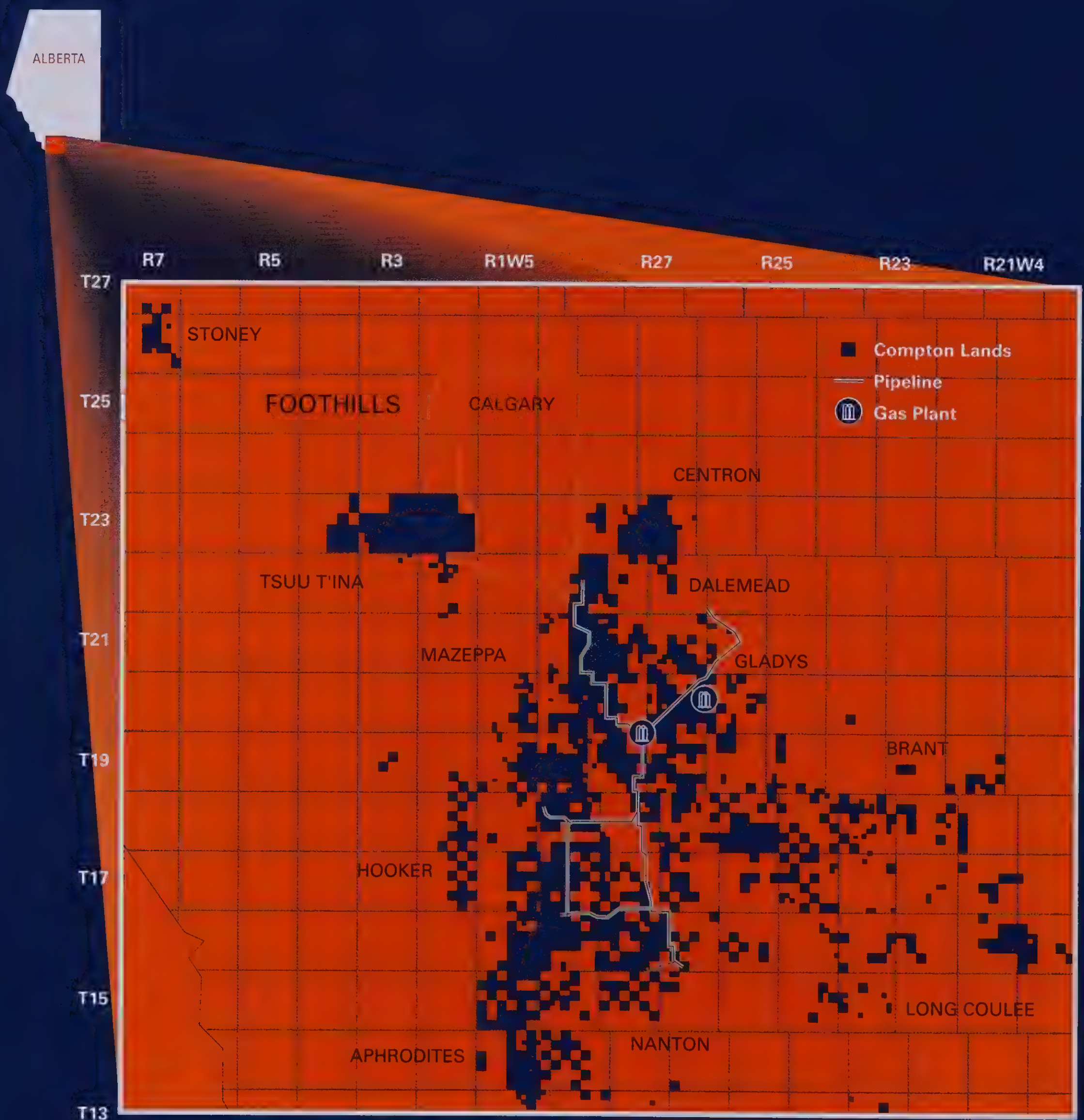
# technical expertise

Compton's extensive technical expertise has led to success in finding reserves at depths beyond most of the oil and gas industry.



# Southern Alberta

After accumulating a large undeveloped land base in the area, Compton began a program of discovery, exploitation and development. With control of over 880 sections of land, this year-round access area has a minimum five years of growth potential.



# six years of exploration and discovery

An ability to find large, untapped natural gas reservoirs led to Southern Alberta becoming a major Compton success story.


## SOUTHERN ALBERTA

Compton realized it could capture significant untapped potential in Southern Alberta by targeting specific underdeveloped reservoir zones. This approach has been extremely successful for Compton.

When Compton entered Southern Alberta, the region was characterized as an area focused on two play types. Junior companies traditionally sought shallow gas reservoirs at less than 1,000 metres depth. The attraction was shallow gas, its low drilling costs, simple completion and quick profitability, but the pools and reserves per well are modest, placing companies on a reserves replacement treadmill. At the other end of the spectrum are the deep Paleozoic carbonate reservoirs favoured by larger companies able to handle greater risk, high drilling costs and sour gas in return for longer reserve life.

Compton recognized that the medium depth to deep Lower Cretaceous sandstones held resources that could be discovered and produced by applying the latest exploration and production technology. Industry traditionally avoided these formations, considering them tight, difficult to map and uneconomic. Compton's study of the land tenure showed that large tracts of acreage were held by just a few industry players. Accordingly, from 1996 to 2001 Compton secured control to over 560,000 acres (880 sections) of land and obtained control of infrastructure. The Company also added over 32,000 acres (50 sections) of land through the Hornet acquisition in 2001. Over the last three years Compton has discovered and placed on production significant reserves from a variety of plays. Compton's experience in the detection and completion of these deeper, low permeability reservoirs can also be applied to other play areas.

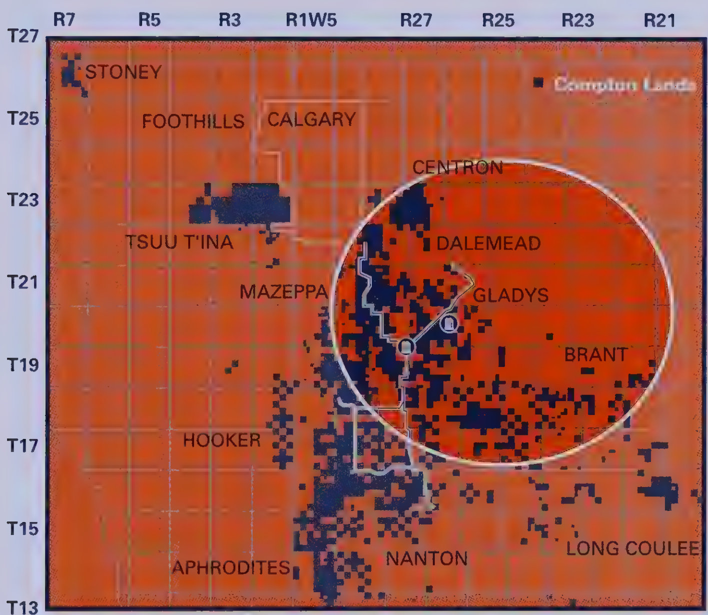

## Hooker

The Company's deep tight gas play at Hooker, centred approximately 50 kilometres south of Calgary, holds large liquids-rich, long-life natural gas reserves in the Lower Cretaceous Basal Quartz sandstone at 2,400 to 3,300 metre well-depths. Compton holds over 130,000 acres (200 sections) of land on the play at an average working interest of 70 percent. In 2001, Compton continued to focus on developing this play: a 166 square kilometre 3D seismic program was shot and 19 wells were drilled during the year, 15 of which were successful.

The 2001 Hooker drilling program of 12 exploratory and seven development wells produced the best wells drilled to-date on the play. The close integration of the Company's geological model with specialized 3D seismic data interpretation methods has allowed the Company to target better reservoir quality within the play trend, while well completion techniques maximize production.

The exploratory portion of the 2001 program was highly successful and extended the producing trend from 15 kilometres to 56 kilometres in length. At Aphrodites (the southern end of the Hooker play), Compton successfully re-entered an abandoned well to extend the Hooker trend 16 kilometres south from established production. Despite keeping two triple drilling rigs active for most of the year, the Hooker trend is only 25 percent developed and the Company presently has over 90 future well locations in inventory.

At year-end 2001, established reserves at Hooker were 161 bcfe, double the amount at year-end 2000. Development of the Hooker/Aphrodites play over the next three years, based upon results to date, has the potential to add a further 350 bcfe of reserves net to Compton and double the Company's current overall gas production and the corporate gas reserves.



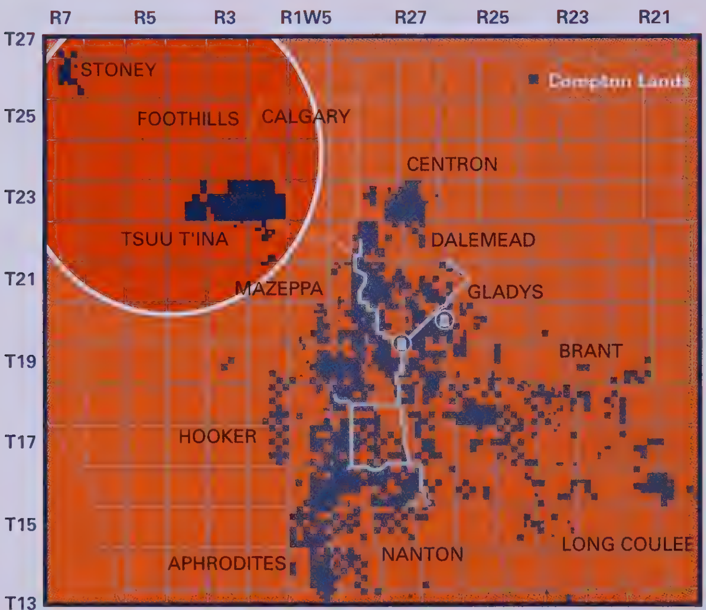

## Centron/Gladys/Brant/Dalemead

In 2001, the Company drilled 22 wells on stacked Belly River trends in these four strike areas, resulting in a 95 percent success rate. During the year a total of 33 wells were tied-in, bringing the exit rate to 14 mmcf per day from the Belly River formation. The Company has a substantial land base in the area which provides for continued development of these medium-depth reservoirs.

At Dalemead, Compton placed three previously drilled Mississippian Elkton gas wells on production in January 2002, at a combined rate of 5 mmcf per day net. Compton is investigating additional locations based on 3D seismic data.

## Mazeppa

The Okotoks-Mazeppa field has been on production since the early 1960s. The pool has produced 400 bcf and still holds over 100 bcf of sour raw gas reserves. Compton plans to accelerate depletion of the field by drilling horizontal development wells to access the better parts of the reservoir.




## FOOTHILLS

### Tsuu T'ina

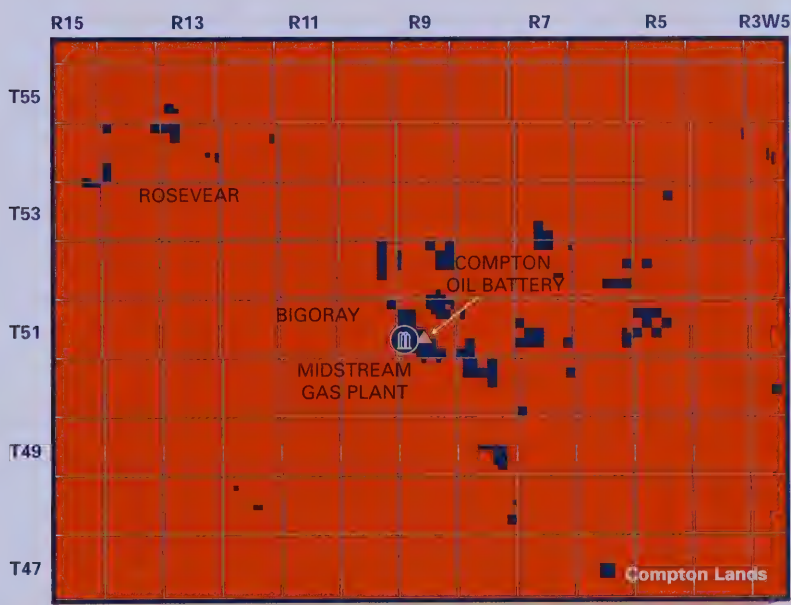
Compton holds 51,000 acres (80 sections) of land on and around the Tsuu T'ina Reserve, southwest of Calgary. The area has been lightly explored due to part of it being set aside as a military training range for many years. The Company is targeting high impact, multi-zone prospects, allowing Compton to apply its expertise from other Southern Alberta areas. In 2001, the Company shot 110 kilometres of 2D seismic on the eastern acreage and purchased a 3D seismic program on the western acreage to develop three different exploratory prospects. The first well was drilled late in the year and is still on confidential status; Compton plans to tie-in the well in mid-2002. A second well was unsuccessful and was abandoned. Additional drilling is planned for 2002 that will target several high potential, prospective reservoirs.

### Stoney

Compton holds a 70 percent working interest in 6,100 acres (9.5 sections) of land at Stoney, east of Wildcat Hills, that are prospective for natural gas in foothills structural traps. Prospects have been identified through a large 3D seismic survey. The Company is proceeding with the planning and approval process for the first well, which could commence in late 2002.

# Central Alberta

Although a mature region, Central Alberta represents an opportunity for Compton to apply its tight gas expertise in exploration activity.





Central Alberta offers a wealth of oil and gas exploration and exploitation opportunities. Compton continued to develop the acreage base and added new acreage through Crown lease sales, swaps and acquisitions.

The Company continued to optimize light oil production from the Bigoray Cardium 'B' pool waterflood. A doubling of fluid handling capacity enabled Compton to adjust the water injection pattern and pressure to improve recovery from portions of the pool. This should maintain current production levels and provide strong cash flow to fund other exploration activities.

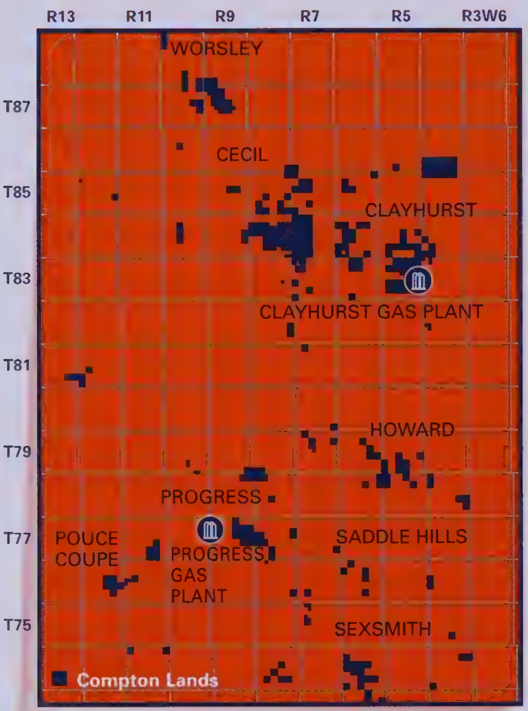
At Rosevear, Compton drilled two gas wells which were placed on continuous production in the fourth quarter of 2001.

In the Halkirk, Gilby and Prevo areas, Compton proceeded with exploitation activities, consolidating acreage interests and gaining control of infrastructure to achieve core area synergy. The Company tied in a 90 percent working interest Halkirk gas discovery to a Compton-owned gas plant, which the Company acquired in 2001. The well is producing over 3 mmcf per day, contributing to a doubling of area production to over 700 boe per day net to Compton. Two other successful wells were drilled at Prevo and Gilby. Engineering work to enhance production through well workovers and waterfloods is ongoing.

**Compton began a review of the area with a seismic database and gained entry to this area through the corporate acquisition of J.M. Huber Canada Limited in 1998. Today, light oil production optimization activities generate cash flow to fund exploration programs in the Company's core areas.**

# Peace River Arch

Compton has spent considerable time mapping this highly competitive area and evaluating options for land assembly that will be advanced in 2002.





**Compton drilled 16 wells in the Peace River Arch region in 2001, resulting in 10 oil wells and four gas wells. The 2002 program includes up to 15 wells.**

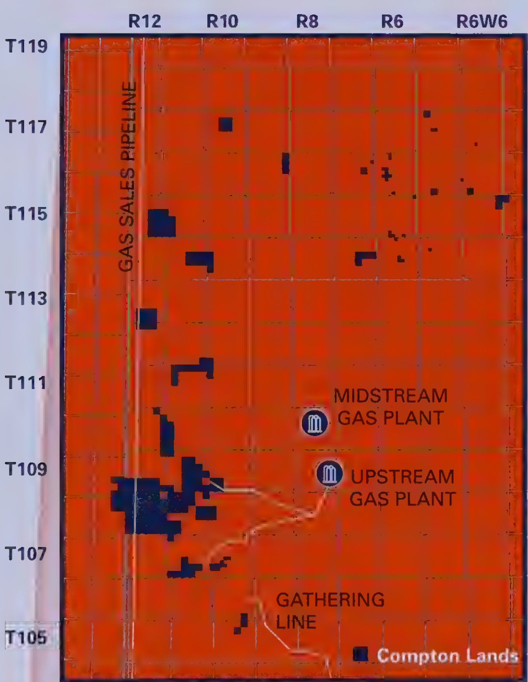
Compton's position on the Peace River Arch started with a seismic database and a technical team identifying great potential for this area. The late 1990s acquisition of the Coparex and Huber properties provided a range of opportunities. The Company holds approximately 115,000 acres of undeveloped land at an average working interest of 70 percent. After entering the area, Compton's technical team spent time mapping the plays of interest using well control and seismic, and developed a picture of an ideal land position. Compton made progress in assembling promising land blocks in 2001, and these efforts are expected to culminate in significant acreage additions in 2002.

During 2001, activity in this area focused primarily on exploitation of the Cecil and Worsley light oil pools. Together, these pools have 187 million barrels of original oil-in-place, with a projected primary recovery factor of only 5 to 7 percent. Compton is working to improve ultimate recovery to approximately 15 to 17 percent through infill and step-out drilling, as well as secondary recovery schemes. The Company drilled six wells at Cecil (40 percent WI), resulting in four oil wells and one gas well. Another seven wells at Worsley (100 percent WI) yielded six oil wells, doubling production to 1,200 boe per day from this pool. The Worsley plant was upgraded to handle additional amounts of solution gas, setting the stage for increased production from the start-up of a pilot waterflood in early 2002. Compton also drilled five successful exploitation wells (average 33 percent working interest) at Pouce Coupe during the winter of 2001.

Compton plans to drill up to 15 wells on the Arch in 2002, targeting multiple plays with both development and exploratory potential. A 2D seismic program was just completed to delineate prospects on an exploratory trend.

# Northern Alberta

Compton identified gas potential and assembled a large undeveloped land inventory in the West Rainbow/Zama area of North Western Alberta in anticipation of pipelines and infrastructure being built.





**Prospects in this region include multiple-zone, natural gas exploration in the Rainbow and Zama basins, in the under-explored West Rainbow area. Currently, there is considerable industry activity in this area.**

Compton has identified several gas exploration opportunities in northwest Alberta. The Rainbow and Zama basins offer potential for natural gas. Activity in 2001 concentrated on prospects that could be tied-in quickly. At Zama, recompletions of two re-entries on previously abandoned cased wells and three workovers added 2.5 mmcf per day of net production during the year. The West Rainbow area, near the British Columbia border, offers multiple plays in an under-explored area, due to the historic lack of production infrastructure. Compton has several large acreage blocks in the area, totaling 173,000 acres at an average working interest of 73 percent.

With industry interest at West Rainbow increasing dramatically, Compton's foresight in building a large land position ahead of pipelines and infrastructure puts the Company in a favorable position. Processing alternatives for both sweet and sour gas now exist. A Nova sales pipeline runs through Compton's acreage, and competitors are beginning to connect selected natural gas wells to processing and midstream plants. West Rainbow is a winter access only drilling area. Outside the drilling season, Compton will focus on ways to process and bring new gas to market, whether through joint venture or sole operations. Given the limited access time for construction, the development time frame is two to three years. Potential exists in several horizons.

# engineering and operations review

## UNDEVELOPED LAND

During 2001, Compton continued to expand its land base within its core operating areas. Undeveloped land increased by 19 percent to 962,259 (700,695 net) acres, from 808,400 (610,640 net) acres in 2000. The Company has an average 73 percent working interest in this large land base, sufficient to generate significant drilling prospects over the next three to five years.

| *December 31, 2001* | Acres | | Sections | |
|---|---|---|---|---|
| Area | Gross | Net | Gross | Net |
| Southern Alberta | 414,544 | 339,919 | 648 | 532 |
| Central Alberta | 228,370 | 124,320 | 357 | 194 |
| Peace River Arch | 115,720 | 79,443 | 181 | 124 |
| Northern Alberta | 173,305 | 127,013 | 271 | 198 |
| Other | 30,320 | 30,000 | 47 | 47 |
| **Total** | **962,259** | **700,695** | **1,504** | **1,095** |

## SEISMIC

A successful exploration effort begins with a quality seismic database that can be used to internally-generate prospects. In 1993, Compton leveraged 12,000 kilometres of 2D seismic into an exploration base across four geographic regions in Alberta. Today, those regions have become the Company's core operating areas.

Currently, Compton owns or has access to 90,000 kilometres of 2D seismic and 2,200 square kilometres of 3D seismic. In 2001, Compton shot and/or purchased 2,400 kilometres of 2D seismic data and 470 square kilometres of 3D seismic. Effective processing and interpretation of this seismic data often reveals greater insight into geological plays.

## DRILLING ACTIVITY

In 2001, consistent with the Company's strategy of internal prospect generation and full-cycle exploration, Compton drilled a total of 95 wells with an all-in proved finding and development cost of $9.03 per boe (excluding corporate acquisitions). Compton's natural gas targets continue to be deeper than the typical Alberta well. The average well depth of the Company's 2001 drilling program was approximately 1,800 metres (6,000 feet). Compton's deep drilling technical expertise and its large land base enable the Company to explore for and develop larger reservoirs with long-life, low decline reserves. Compton's 2001 drilling program achieved an overall success rate of 76 percent. Of the 95 wells drilled, 46 were classified as exploratory wells and 49 as development wells.

Compton's 2001 drilling results are summarized below:

| Area | Gas | Oil | D&A | Total | Net | Success |
|---|---|---|---|---|---|---|
| Southern Alberta | 40 | 1 | 11 | 52 | 42.6 | 79% |
| Central Alberta | 12 | 1 | 9 | 22 | 15.4 | 59% |
| Peace River Arch | 4 | 10 | 2 | 16 | 11.0 | 87% |
| Northern Alberta | 4 | 0 | 1 | 5 | 1.8 | 80% |
| **Total** | **60** | **12** | **23** | **95** | **70.8** | **76%** |

## PRODUCTION TABLE

In 2001, Compton's average daily production was 23,404 boe per day (6:1), representing an increase of 14 percent over the year 2000 production levels. Compton's production profile continues to reflect the Company's strategic gas focus as approximately 72 percent of the 2001 production was natural gas weighted. The 2001 natural gas and liquids (crude oil and ngls) production rates were 101.1 mmcf per day and 6,546 bbls per day, respectively.

| Average daily production | Natural gas mmcf/d | Crude oil & ngls bbls/d | BOE (6:1) |
|---|---|---|---|
| Southern Alberta | 58.9 | 1,405 | 11,228 |
| Central Alberta | 22.2 | 2,955 | 6,656 |
| Peace River Arch | 17.0 | 1,843 | 4,677 |
| Northern Alberta | 3.0 | 343 | 843 |
| **Total** | **101.1** | **6,546** | **23,404** |

## RESERVES

Compton's proved reserves increased by 18 percent to 71.8 million boe at December 31, 2001 from 61.0 million boe at December 31, 2000. Total proved reserves account for 86 percent of the Company's established reserves at December 31, 2001 compared to 84 percent at the end of 2000. As a result of successful development activities, Compton improved its ratio of proved producing reserves to proved undeveloped reserves. At year-end 2001, proved undeveloped reserves decreased by approximately 1 million boe and now comprise only 11 percent of total proved reserves versus 15 percent of proved reserves at December 31, 2000. Natural gas accounts for 82 percent of the Company's total proved reserves and 80 percent of established reserves.

The Company's reserves were evaluated by independent petroleum engineering consultants, Outtrim Szabo and Associates Ltd. and were reviewed by an independent Committee of Compton's Board of Directors. The results of Outtrim's evaluation are summarized below:

### Escalated Dollar Economics

| | Gas | Crude oil & ngls | Total mboe | % of Total | Discounted cash flow | |
|---|---|---|---|---|---|---|
| | | | | | 10% | 15% |
| | bcf | mbbls | (6:1) | | $000s | $000s |
| *At December 31, 2001* | | | | | | |
| Reserve category: | | | | | | |
| Proved producing | 246.5 | 9,358 | 50,443 | 60 | 432,457 | 361,046 |
| Proved non-producing | 64.7 | 2,558 | 13,336 | 16 | 118,693 | 97,012 |
| Proved undeveloped | 40.8 | 1,167 | 7,975 | 10 | 48,117 | 35,510 |
| Total proved | 352.0 | 13,083 | 71,754 | 86 | 599,267 | 493,568 |
| Probable, risked | 49.0 | 3,751 | 11,921 | 14 | 73,075 | 53,505 |
| **Established** | **401.0** | **16,834** | **83,675** | **100** | **672,342** | **547,073** |

## Escalated Dollar Economics Pricing Assumptions

| | Crude oil | | Natural gas |
|---|---|---|---|
| | WTI at Cushing | Edmonton light | AECO-C Spot |
| Year | US$ per bbl | Cdn$ per bbl | Cdn$ per mcf |
| 2002 | 20.50 | 31.13 | 4.12 |
| 2003 | 20.81 | 31.09 | 4.39 |
| 2004 | 21.12 | 31.05 | 4.43 |
| 2005 | 21.44 | 31.02 | 4.42 |
| 2006 | 21.76 | 31.48 | 4.47 |
| 2007 | 22.08 | 31.96 | 4.55 |
| 2008 | 22.42 | 32.44 | 4.64 |
| 2009 | 22.75 | 32.92 | 4.70 |
| 2010 | 23.09 | 33.42 | 4.76 |
| 2011 | 23.44 | 33.92 | 4.82 |
| 2012 | 23.79 | 34.43 | 4.88 |
| 2013 | 24.15 | 34.94 | 5.02 |
| Escalate thereafter @ 1.5% | | | |

## Reserve Reconciliation

| | Crude oil & ngls | | | Natural gas | | | |
|---|---|---|---|---|---|---|---|
| | Proved mbbl | 50% Prob. mbbl | Total mbbl | Proved bcf | 50% Prob. bcf | Total bcf | Total mboe (6:1) |
| December 31, 2000 | 12,806.4 | 3,912.5 | 16,718.9 | 289.2 | 48.3 | 337.5 | 72,972.4 |
| Development, exploration and exploitation | 2,188.8 | (99.4) | 2,089.4 | 70.8 | 2.1 | 72.9 | 14,236.3 |
| Acquisitions, net | 761.8 | 393.6 | 1,154.4 | 25.2 | 10.0 | 35.2 | 7,014.2 |
| Reserve revisions | (284.0) | (456.0) | (740.0) | 3.8 | (11.4) | (7.6) | (2,008.6) |
| Production | (2,389.5) | – | (2,389.5) | (36.9) | – | (36.9) | (8,539.5) |
| **December 31, 2001** | **13,083.4*** | **3,750.7** | **16,834.1*** | **352.0*** | **49.0** | **401.0*** | **83,674.8** |

(*May not add due to rounding)

## Reserve Life Index

| | 2001 | | | 2000 |
|---|---|---|---|---|
| Years | Natural gas | Crude oil & ngls | Oil equivalent | Oil equivalent |
| Proved only | 8.8 | 5.1 | 7.8 | 7.5 |
| Established | 10.0 | 6.5 | 9.1 | 9.0 |

(Based on annualized 4th quarter production)

## CAPITAL PROGRAM EFFICIENCY

| | 2001 | 2000 | 1999 | Total/average 3 Year | 5 Year |
|---|---|---|---|---|---|
| Capital expenditures ($ millions) | **$ 190.5** | $ 118.5 | $ 130.5 | $ 439.5 | **$ 602.4** |
| Cash flow netback ($/boe) | **$ 15.01** | $ 15.72 | $ 8.91 | $ 13.68 | **$ 12.87** |
| Proved reserves additions: | | | | | |
| F&D costs ($/boe) | **$ 9.88** | $ 8.67 | $ 8.58 | $ 9.13 | **$ 6.93** |
| Recycle ratio | **1.5** | 1.8 | 1.0 | 1.5 | **1.9** |
| Reserves replacement ratio | **2.3** | 1.8 | 2.8 | 2.2 | **3.5** |
| Established: | | | | | |
| F&D costs ($/boe) | **$ 9.90** | $ 7.11 | $ 6.62 | $ 7.90 | **$ 6.21** |
| Recycle ratio | **1.5** | 2.2 | 1.3 | 1.7 | **2.1** |
| Reserves replacement ratio | **2.3** | 2.2 | 3.6 | 2.6 | **3.9** |

## MARKETING

In 2001, the Company's average field prices in Canadian funds were $4.77 per mcf of natural gas and $28.83 per bbl of liquids (crude oil and ngls), compared to 2000 average field prices of $4.55 per mcf and $31.29 per bbl, respectively.

Approximately 40 percent of the Company's natural gas production is committed to aggregators, with non-contracted discretionary sales comprising the remaining 60 percent. Compton's discretionary sales are priced at the AECO Index. These discretionary volumes are receipted on the TCPL Alberta System, Alliance Pipeline and the Atco Pipeline. Both Alliance and Atco provide significant savings in transportation costs versus the TCPL receipts. The majority of the Company's aggregator contracts expire in September 2002, which will allow Compton more opportunity and flexibility with its natural gas sales portfolio.

Compton's crude oil sales are priced at Edmonton postings and are typically sold on 30-day evergreen arrangements in order to take advantage of new market opportunities as they occur. The natural gas liquids are bid out on an annual basis to establish the most competitive pricing. The Company sells crude oil and natural gas liquids primarily to refineries and marketers.

From time to time, Compton may enter into hedging arrangements to mitigate commodity price risk and to take advantage of opportunistic pricing. In accordance with our policy, hedging programs will not exceed 50 percent of non-contracted production.

Please refer to the management's discussion and analysis section, page 33, for current hedging contracts outstanding.

# HEALTH, ENVIRONMENT AND SAFETY

## Environment

Compton recognizes the importance of protecting the environment and is committed to conducting all operations in a safe manner that minimizes environmental impact. This commitment is demonstrated with the following initiatives and endeavours:

- The Company conducts periodic environmental audits to ensure that its facilities continually meet regulatory standards.
- Compton evaluates the environmental impact of all new projects, ensures that effective control measures are implemented and acts in a timely and efficient manner to rectify deficiencies that may occur.
- Compton supports individual and industry efforts to protect the environment and will pursue a high standard in environmental management.
- It is Compton's policy to have operations-focused employees attend an appropriate environmental orientation session to become familiar with the sensitivity of the environment in which they work and to ensure they understand their responsibilities for environmental protection.
- Contractors working for Compton must also be dedicated to protecting the environment and must comply with all applicable laws and regulations.

## Health and Safety

Compton continually strives to achieve a healthier and safer environment across its operations and at all work sites. The Company is committed to ensuring that all employees, contractors, and subcontractors are made aware of and adhere to all the safe practices governed by regulatory legislation and industry guidelines. The Company has pledged to operate in a safe manner to protect the safety and health of employees, contractors and community residents.

The Company looks forward to continuing to work with employees, contractors, subcontractors and community residents in maintaining a safer environment for all stakeholders.

Compton has established an Engineering, Environmental, Health and Safety Committee, consisting of three independent directors of Compton's board, to ensure that the highest quality of operations are maintained so that employees, community residents and the environment are protected while the Company is engaged in its exploration and development activities.

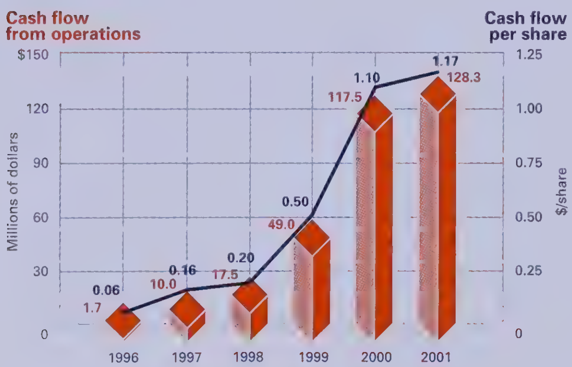
# management's discussion and analysis

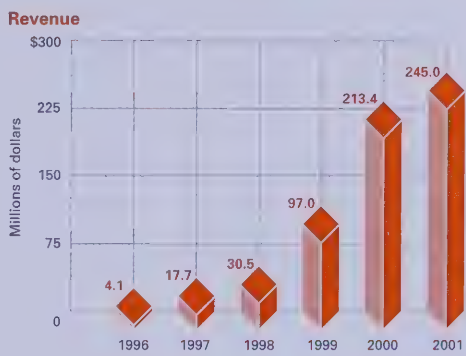
## OVERVIEW

Compton is an independent public company actively engaged in the exploration, development, and production of natural gas, natural gas liquids, and crude oil in Western Canada. The Company's activities are concentrated in four core geographic areas in Alberta. Compton's growth and reserves base has resulted from exploration and development activities complemented by strategic acquisitions. The Company is committed to long-term sustainable growth through a focus on natural gas with deeper, long-life, low decline reserves.

*Management's discussion and analysis (MD&A) is a review of the Company's 2001 financial and operating results and should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2001. This discussion is intended to provide both a historical and prospective view of the Company's activities.*

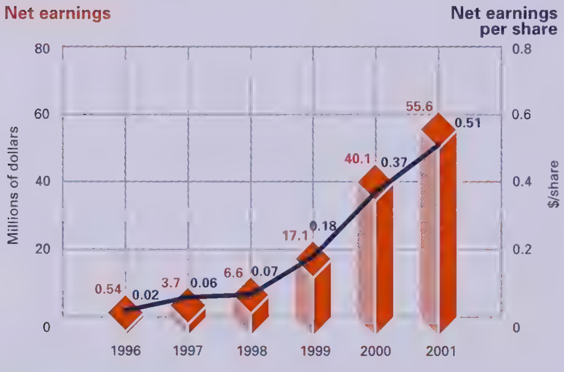
*Per barrel of oil equivalent amounts have been calculated using a conversion rate of 6,000 cubic feet of natural gas to 1 barrel. Certain information regarding the Company contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated in forward looking statements.*

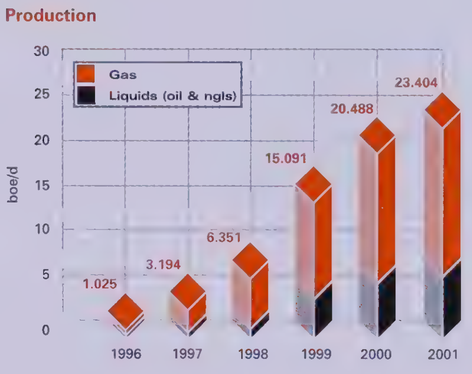


## HIGHLIGHTS

| *(thousands of dollars, except where noted)* | **2001** | 2000 | 1999 |
|---|---|---|---|
| Total revenue | **$244,970** | $213,376 | $ 97,016 |
| Cash flow from operations | **$128,334** | $117,533 | $ 49,030 |
| Per share (basic) | **$ 1.17** | $ 1.10 | $ 0.50 |
| Net earnings | **$ 55,636** | $ 40,059 | $ 17,088 |
| Per share (basic) | **$ 0.51** | $ 0.37 | $ 0.18 |
| Capital expenditures | **$190,467** | $118,472 | $130,459 |
| Corporate debt, net | **$208,299** | $153,440 | $158,491 |
| Shareholders' equity | **$217,860** | $157,796 | $116,702 |
| Average production | | | |
| Natural gas (mmcf/d) | **101.1** | 85.1 | 63.7 |
| Liquids (bbls/d) | **6,546** | 6,305 | 4,474 |
| Oil equivalent (boe/d) | **23,404** | 20,488 | 15,091 |
| Average sales price | | | |
| Natural gas ($/mcf) | **$ 4.77** | $ 4.55 | $ 2.63 |
| Liquids ($/bbl) | **$ 28.33** | $ 31.29 | $ 21.97 |




## PRODUCTION

For 2001, Compton's natural gas production averaged 101.1 mmcf per day, an increase of 19 percent from 2000. Liquids production increased by 4 percent to 6,546 bbls per day from 6,305 bbls per day in 2000. On a barrel of oil equivalent basis, production for 2001 averaged 23,404 boe per day, a 14 percent increase compared with 20,488 boe per day for 2000. Natural gas accounted for 72 percent of the Company's production mix during 2001.

Production for 2002 is expected to increase approximately 15 percent over 2001 based upon the Company's 2002 capital expenditures program of $100 million. Refer to the Capital Expenditures section of this MD&A for commodity price assumptions utilized for the Company's 2002 capital program.

## REVENUE AND PRICING

### Gross Revenue Analysis

| *(thousands of dollars)* | **2001** | | 2000 | | 1999 | |
|---|---|---|---|---|---|---|
| | **$** | **%** | $ | % | $ | % |
| Natural gas | **$ 174,424** | **72** | $ 141,367 | 67 | $ 61,135 | 63 |
| Natural gas hedging | **3,666** | **1** | – | – | – | – |
| Crude oil and ngls | **68,880** | **28** | 79,664 | 37 | 36,943 | 38 |
| Crude oil hedging | **–** | **–** | (7,655) | (4) | (1,062) | (1) |
| Revenue | **$ 244,970** | **100** | $ 213,376 | 100 | $ 97,016 | 100 |

During the latter half of 2001, the oil and gas industry experienced a significant deterioration in commodity price levels from the highs recorded earlier in the year. Both crude oil and natural gas prices weakened in response to the global economic slowdown and mild weather.

Despite this volatility in prices, Compton realized $245.0 million in petroleum and natural gas revenue in 2001, an increase of 15 percent from the $213.4 million generated during the prior year. This increase was primarily attributable to the Company's 14 percent increase in production (oil equivalent basis), as the Company's 2001 average price of $28.68 per boe was relatively flat compared to the average price of $28.53 per boe realized in 2000.

Compton's average realized gas price is affected by the aggregator component of natural gas sales. Approximately 40 percent of the Company's natural gas production is committed to aggregators. The average aggregator price realized was approximately $0.90 per mcf less than the non-aggregator prices realized during 2001. The majority of the Company's aggregator contracts expire in September 2002.

## RISK MANAGEMENT

From time to time the Company enters into hedge transactions to manage fluctuations in commodity prices. Additionally, hedging contracts are utilized to support the economics of both corporate and property acquisitions. Oil and gas revenues for 2001 included gains of $3.7 million (2000 – loss of $7.7 million) on such transactions.

Currently, the Company has hedged approximately 20 percent of its current 2002 production and no hedging contracts are in place for the year 2003.

Commodity hedging transactions have been entered into as follows:

| Commodity | Type | Term | Volume | Price | Index |
|---|---|---|---|---|---|
| Natural gas | Collar | April 2002 – October 2002 | 15,000 GJ/d | $3.83/GJ – $5.45/GJ | AECO |
| Natural gas | Fixed | May 2002 – October 2002 | 5,000 GJ/d | $4.61/GJ | AECO |
| Crude oil | Collar | May 2002 – December 2002 | 1,500 bbls/d | US$23.83/bbl – US$28.00/bbl | WTI |
| Crude oil | Fixed | May 2002 – December 2002 | 500 bbls/d | US$24.40/bbl | WTI |

### Tax Pools

Compton has approximately $244.6 million of tax pools at January 1, 2002. The following table summarizes the Company's estimated tax pool balances by classification:

| *(thousands of dollars)* | Available Balance | Maximum Annual Deduction |
|---|---|---|
| Canadian Exploration Expense | $ 17,674 | 100% |
| Canadian Development Expense | 49,252 | 30% |
| Canadian Oil and Gas Property Expense | 106,115 | 10% |
| Undepreciated Capital Cost | 62,832 | 20% – 25% |
| Other | 8,692 | 20% – 100% |
| Total | $244,565 | |

With the exception of Capital Taxes, the Company does not expect to be cash taxable in 2002.

## CASH FLOW AND NET EARNINGS

### Cash Flow Netback Analysis

| | **2001** | | | 2000 | 1999 |
|---|---|---|---|---|---|
| | **Gas** | **Liquids** | | | |
| *($/boe @ 6:1)* | **$/mcf** | **$/bbl** | **$/boe** | $/boe | $/boe |
| Revenue | **$ 4.77** | **$ 28.83** | **$ 28.68** | $ 28.54 | $ 17.61 |
| Royalties, net | **(1.11)** | **(6.29)** | **(6.55)** | (5.98) | (2.92) |
| Operating expenses | **(0.66)** | **(6.61)** | **(4.71)** | (4.22) | (3.73) |
| Field operating netback | **$ 3.00** | **$ 15.93** | **$ 17.42** | $ 18.34 | $ 10.96 |
| General and administrative | | | **(0.74)** | (0.79) | (0.77) |
| Interest expense | | | **(1.51)** | (1.71) | (1.26) |
| Capital taxes | | | **(0.16)** | (0.12) | (0.04) |
| Cash flow netback | | | **$ 15.01** | $ 15.72 | $ 8.90 |

In 2001, the Company realized record cash flow and net earnings, primarily as a result of increased production. Cash flow from operations, which is a measure of the Company's ability to internally finance its capital program, increased by 9 percent to $128.3 million ($1.17 per share basic), compared to $117.5 million ($1.10 per share basic) for the previous year.

Net earnings for the year totalled $55.6 million ($0.51 per share basic), a 39 percent increase from the $40.0 million ($0.37 per share basic) earned in 2000. Consistent with 2000, the Company's 2001 net earnings were in excess of 25 percent of revenue, net of royalties, reflecting Compton's low cost per unit of production.

## CAPITAL EXPENDITURES

### Capital Expenditure Analysis

Capital expenditures for 2001 totalled $190.5 million, including the $42.0 million acquisition of Hornet Energy Ltd. A total of 95 gross (70.8 net) wells were drilled during the year, compared to 96 gross (78.3 net) wells in 2000.

During 2001, the Company continued to invest in land, seismic, production facilities and exploratory drilling necessary for future value creation. Approximately 50 percent of total exploration and development costs were directed towards exploratory projects.

The July 2001 acquisition of Hornet was strategic to the Company's continuing expansion in Southern Alberta and provided Compton with additional undeveloped acreage, increased working interest, control of infrastructure and operatorship in the area as well as additional reserves.

| | 2001 | | 2000 | |
|---|---|---|---|---|
| | (000s) | % | (000s) | % |
| Land and seismic | $ 25,883 | 14 | $ 23,241 | 20 |
| Drilling and completions | 84,658 | 44 | 66,695 | 56 |
| Facilities | 27,643 | 15 | 27,901 | 24 |
| Acquisitions, net | 10,243 | 5 | 635 | – |
| Subtotal | $ 148,427 | 78 | $118,472 | 100 |
| Corporate acquisitions | 42,040 | 22 | – | – |
| Total | $ 190,467 | 100 | $118,472 | 100 |

The Company currently has a planned 2002 capital expenditure program of $100 million, based upon projected operating cash flow. Of this amount, approximately $70 million will be directed towards drilling and completion activities, allocated 35 percent to exploratory and 65 percent to development projects. The Company's 2002 capital program reflects projected 2002 realized average commodity prices of $3.55 per mcf of natural gas and $26.35 per bbl of crude oil. These prices are based upon US$2.85 per mcf (Nymex) and US$20.00 per bbl (WTI). The Company has a large inventory of drilling prospects and can quickly increase its capital expenditure program as commodity prices strengthen.

### Finding and Development Costs (F&D)

The Company's all-in F&D costs for the year, on a proved basis, were $9.88 per boe ($9.90 per established boe). The July 2001 acquisition of Hornet, at a cost of $14.76 per proved boe ($10.17 per established boe), added significantly to F&D costs. Exclusive of the Hornet acquisition, Compton's F&D costs were $9.03 per proved boe and include $1.58 per boe related to land and seismic expenditures.

The movement of proved undeveloped reserves to the producing category, together with significant investments in land, seismic, and facilities for the benefit of future periods, also added to costs for the year. The Company's F&D costs on an established basis are marginally higher than on a proved basis and reflect the movement of probable additional reserves to the proved category.

## Tax Pools

Compton has approximately $244.6 million of tax pools at January 1, 2002. The following table summarizes the Company's estimated tax pool balances by classification:

| *(thousands of dollars)* | Available Balance | Maximum Annual Deduction |
|---|---|---|
| Canadian Exploration Expense | $ 17,674 | 100% |
| Canadian Development Expense | 49,252 | 30% |
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| Undepreciated Capital Cost | 62,832 | 20% – 25% |
| Other | 8,692 | 20% – 100% |
| Total | $244,565 | |

With the exception of Capital Taxes, the Company does not expect to be cash taxable in 2002.

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|---|---|---|---|---|---|
| | **Gas** | **Liquids** | | | |
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| Revenue | **$ 4.77** | **$ 28.83** | **$ 28.68** | $ 28.54 | $ 17.61 |
| Royalties, net | **(1.11)** | **(6.29)** | **(6.55)** | (5.98) | (2.92) |
| Operating expenses | **(0.66)** | **(6.61)** | **(4.71)** | (4.22) | (3.73) |
| Field operating netback | **$ 3.00** | **$ 15.93** | **$ 17.42** | $ 18.34 | $ 10.96 |
| General and administrative | | | **(0.74)** | (0.79) | (0.77) |
| Interest expense | | | **(1.51)** | (1.71) | (1.26) |
| Capital taxes | | | **(0.16)** | (0.12) | (0.04) |
| Cash flow netback | | | **$ 15.01** | $ 15.72 | $ 8.90 |

In 2001, the Company realized record cash flow and net earnings, primarily as a result of increased production. Cash flow from operations, which is a measure of the Company's ability to internally finance its capital program, increased by 9 percent to $128.3 million ($1.17 per share basic), compared to $117.5 million ($1.10 per share basic) for the previous year.

Net earnings for the year totalled $55.6 million ($0.51 per share basic), a 39 percent increase from the $40.0 million ($0.37 per share basic) earned in 2000. Consistent with 2000, the Company's 2001 net earnings were in excess of 25 percent of revenue, net of royalties, reflecting Compton's low cost per unit of production.

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Capital expenditures for 2001 totalled $190.5 million, including the $42.0 million acquisition of Hornet Energy Ltd. A total of 95 gross (70.8 net) wells were drilled during the year, compared to 96 gross (78.3 net) wells in 2000.

During 2001, the Company continued to invest in land, seismic, production facilities and exploratory drilling necessary for future value creation. Approximately 50 percent of total exploration and development costs were directed towards exploratory projects.

The July 2001 acquisition of Hornet was strategic to the Company's continuing expansion in Southern Alberta and provided Compton with additional undeveloped acreage, increased working interest, control of infrastructure and operatorship in the area as well as additional reserves.

| | 2001 | | 2000 | |
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| | (000s) | % | (000s) | % |
| Land and seismic | $ 25,883 | 14 | $ 23,241 | 20 |
| Drilling and completions | 84,658 | 44 | 66,695 | 56 |
| Facilities | 27,643 | 15 | 27,901 | 24 |
| Acquisitions, net | 10,243 | 5 | 635 | – |
| Subtotal | $ 148,427 | 78 | $118,472 | 100 |
| Corporate acquisitions | 42,040 | 22 | – | – |
| Total | $ 190,467 | 100 | $118,472 | 100 |

The Company currently has a planned 2002 capital expenditure program of $100 million, based upon projected operating cash flow. Of this amount, approximately $70 million will be directed towards drilling and completion activities, allocated 35 percent to exploratory and 65 percent to development projects. The Company's 2002 capital program reflects projected 2002 realized average commodity prices of $3.55 per mcf of natural gas and $26.35 per bbl of crude oil. These prices are based upon US$2.85 per mcf (Nymex) and US$20.00 per bbl (WTI). The Company has a large inventory of drilling prospects and can quickly increase its capital expenditure program as commodity prices strengthen.

### Finding and Development Costs (F&D)

The Company's all-in F&D costs for the year, on a proved basis, were $9.88 per boe ($9.90 per established boe). The July 2001 acquisition of Hornet, at a cost of $14.76 per proved boe ($10.17 per established boe), added significantly to F&D costs. Exclusive of the Hornet acquisition, Compton's F&D costs were $9.03 per proved boe and include $1.58 per boe related to land and seismic expenditures.

The movement of proved undeveloped reserves to the producing category, together with significant investments in land, seismic, and facilities for the benefit of future periods, also added to costs for the year. The Company's F&D costs on an established basis are marginally higher than on a proved basis and reflect the movement of probable additional reserves to the proved category.

Given that the timing of capital expenditures does not necessarily coincide with the recognition of reserves, Compton has calculated finding and development costs for 2001 and a three-year average as follows:

| | 2001 | 3 Year Total/average |
|---|---|---|
| Net capital expenditures (000s) | $190,467 | $439,398 |
| Net F&D cost per boe: | | |
| proved | $ 9.88 | $ 9.13 |
| established | 9.90 | 7.90 |
| Reserves replacement ratio (proved) | 2.3x | 2.2x |
| Recycle ratio (proved) | 1.5x | 1.5x |
| Depletion rate ($/boe) | $ 5.91 | $ 5.21 |

### Recycle Ratio

The recycle ratio is used as an indicator of the efficiency with which an Exploration and Production company can replace its produced reserves. As such, the recycle ratio is widely accepted as a measure of value creation. In 2001, Compton generated a recycle ratio of 1.5 times.

## LIQUIDITY AND FINANCIAL RESOURCES

The capitalization of the Company at December 31, 2001 consisted primarily of 113.1 million common shares and a $240 million bank credit facility. Total debt outstanding at year end, net of working capital, was $208.3 million. At December 31, 2001 Compton had working capital of $22.2 compared to $29.9 million in 2000.

Compton expects funds generated from operations, together with available funds under the Company's existing bank credit facilities, will be sufficient to finance current operations and planned capital expenditures for 2002.

### Bank Debt

In July 2001, the Company renegotiated its extendible bank credit facilities with a syndicate of Canadian financial institutions, resulting in an increase in the Company's credit facilities to $240 million from $192 million at the start of the year. The senior credit facilities consist of a $230 million, extendible revolving credit facility and a $10 million working capital facility. The senior credit facilities bear interest at the lenders' prime rate or at the Bankers' Acceptance rate of LIBOR plus a margin based on the ratio of total consolidated debt to cash flow, currently set at 0.125 percent, 1.125 percent and 1.125 percent respectively. These facilities mature on July 10, 2002. The Company and its lenders anticipate the facilities will be extended with similar terms and conditions. At December 31, 2001, Compton had drawn $230 million under the revolving credit facility.

### Equity

During 2001, Compton completed two private placements to issue a total of 7,345,604 flow-through common shares for total net proceeds of $41.8 million. These funds were used to enhance the Company's 2001 capital expenditure program and to accelerate the planned 2002 program.

In February 2001, Compton obtained regulatory approval from The Toronto Stock Exchange to buy back approximately 5.4 million of the Company's outstanding common shares. The buy-back program was approved for a 12-month period, which commenced on March 5, 2001 and ended on March 4, 2002 and was subsequently renewed for a further 12-month period. For the year ended December 31, 2001, the Company had repurchased 4,206,000 common shares under this buy-back program for $17.8 million.

The after-tax rate of return on average equity was 30 percent in 2001, compared to 29 percent in 2000.

### Rate of Return

| | **2001** | 2000 | 1999 |
|---|---|---|---|
| Net earnings ($000s) | **$ 55,636** | $ 40,059 | $ 17,088 |
| Average shareholders' equity | | | |
| Rate of return (%) | **30%** | 29% | 17% |

## NET ASSET VALUE

The Company has calculated a net asset value as at December 31, 2001 of $5.02 per common share, based upon established reserves (escalated dollar pricing) discounted at 10 percent. Although the Company increased its corporate established reserves by 15 percent in 2001, reduced commodity prices resulted in a lower absolute reserve value at 10 percent DCF. The 2002 price forecast for natural gas and crude oil was 26 percent and 16 percent lower, respectively, compared to the forecast 2002 prices used in the reserves evaluation for December 31, 2000.

### Net Asset Value

| *($ million, except per share amounts)* | **2001** | 2000 |
|---|---|---|
| Oil and gas reserves, established, 10% DCF | **$ 672.3** | $ 678.8 |
| Undeveloped land and seismic | **100.7** | 98.4 |
| Other | **2.8** | 1.6 |
| | **$ 775.8** | $ 778.8 |
| Corporate debt, net | **208.3** | 153.4 |
| Net asset value | **$ 567.5** | $ 625.4 |
| Net asset value per share, issued and outstanding | **$ 5.02** | $ 5.75 |

The value of oil and gas reserves is based upon commodity price assumptions at January 1, 2002 and reflects a per barrel oil price (Edmonton Light) of $31.13 (WTI US$20.50) for 2002, escalating to $34.94 (WTI US$24.15) in 2013 and 1.5 percent per year thereafter. Natural gas pricing is based upon an Alberta spot price of $4.12 per mcf in 2002, escalating to $5.02 per mcf in 2013 and 1.5 percent per year thereafter.

## SENSITIVITIES

The Company's 2002 estimated cash flow sensitivities to fluctuations in oil and gas prices are as follows:

| | Cash flow (Cdn$) | |
|---|---|---|
| | ($000s) | ($ per share) |
| Change of US$0.10/mcf in the price of natural gas (Nymex) | $ 6,500 | $ 0.06 |
| Change of US$1.00/bbl in the price of crude oil (WTI) | 3,200 | 0.03 |

## BUSINESS CONDITIONS, RISKS AND RISK MITIGATION

Compton's operations are subject to risks normally associated with the oil and natural gas industry. The most important of these are set out below, with the strategies Compton employs to mitigate and minimize these risks outlined:

- Inherent industry risk that exploration and development programs undertaken will result in economic reserve additions to replace production.

  Compton's strategies to minimize this inherent risk include focusing on selected areas in Western Canada, utilizing a team of highly qualified professionals with expertise and experience in these areas, expanding operations in core areas, continuously assessing strategic acquisitions to complement existing activities and striving for a balance between exploration and lower-risk development and exploitation prospects.

- Financial risks including commodity prices and expenditure costs shifting due to changes in market conditions.

  Commodity prices are driven by supply, demand and market forces outside the Company's influence. Compton monitors and focuses its expenditures to reflect price and production changes. Compton continuously monitors market conditions and opportunities. From time to time the Company will employ financial instruments to manage exposure related to Canada/U.S. exchange rates and commodity prices. The Company has commodity and fixed-price contracts outstanding as outlined in the Risk Management section of this MD&A. The Company considers longer-term contracts with suppliers, where appropriate, to mitigate such changes. Additionally, Compton has no control over government intervention or taxation levels on the industry.

  It is likely that in the future we will be required to raise additional capital via debt and/or equity financings in order to fully realize our strategic goals and business plans. Compton's ability to raise additional capital will depend upon a number of factors, such as general economic and market conditions, that are beyond our control. If Compton is unable to obtain additional financing or to obtain it on favourable terms, the Company might be required to forego attractive business opportunities. Additionally, Compton is committed to maintaining a strong balance sheet that combines with a flexible capital expenditure program, can react prudently to either acquisition opportunities or a tightening of liquidity sources.

- Mechanical and operational risks associated with the drilling for, production and processing of natural gas and crude oil, including damage to the Company's equipment and the liability associated with an occurrence or malfunction.

Compton manages operational risks by employing skilled professionals utilizing leading-edge technology and conducting regular maintenance and training programs. The Company has both an operational emergency response plan and an operational safety manual. In addition, a comprehensive insurance program is maintained to mitigate risks and protect against significant losses.

- Environmental risk and impact resulting from the Company's field operations.

  Compton operates in accordance with all environmental legislation. The Company strives to maintain and surpass compliance with such regulations and works with government agencies, landholders and other parties to minimize the environmental impact of its activities.

  Compton is also subject to various government imposed regulatory risks, some of which are beyond the Company's control. Compton has established an Engineering, Environmental, Health and Safety Committee to ensure that employees and the environment are protected while the Company is engaged in its exploration and development activities. Policies and procedures have been established to ensure environmental protection standards are maintained and standards of operating practice are designed to minimize risk to employees and the environment.

# management's report

The accompanying consolidated financial statements of Compton Petroleum Corporation and all other financial and operating information contained in this Annual Report are the responsibility of management. The consolidated financial statements have been prepared in accordance with accounting policies detailed in the notes to the consolidated financial statements and in accordance with generally accepted accounting principles in Canada.

The Company's systems of internal control have been designed and maintained to provide reasonable assurance that assets are properly safeguarded and that the financial records are sufficiently well maintained to provide relevant, timely and reliable information to management.

External auditors, appointed by the shareholders, have independently examined the consolidated financial statements. They have performed such tests as they deemed necessary to enable them to express an opinion on these consolidated financial statements.

An Audit Committee of the Board of Directors has reviewed these consolidated financial statements with management and the external auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

E.G. Sapieha, C.A.
President &
Chief Executive Officer

N.G. Knecht, C.A.
Vice President Finance &
Chief Financial Officer

independent auditors'

# report

To the Shareholders of Compton Petroleum Corporation

We have audited the consolidated balance sheets of Compton Petroleum Corporation as at December 31, 2001 and 2000 and the consolidated statements of earnings and retained earnings and cash flow for each of the years in the three year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and cash flow for each of the years in the three year period ended December 31, 2001 in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
March 11, 2002

Grant Thornton LLP
Chartered Accountants

# Compton Petroleum Corporation
## Consolidated Balance Sheets

| *As at December 31,* | **2001** | 2000 |
|---|---|---|
| *($000s)* | | |
| **ASSETS** | | |
| Current | | |
| Cash | **$ 5,052** | $ – |
| Accounts receivable and other | **82,001** | 81,375 |
| | **87,053** | 81,375 |
| Property and equipment (Note 5) | **606,920** | 442,897 |
| | **$ 693,973** | $ 524,272 |
| **LIABILITIES** | | |
| Current | | |
| Accounts payable | **$ 64,903** | $ 51,439 |
| Long-term debt (Note 6) | **230,000** | 183,376 |
| Capital lease obligations (Note 7) | **449** | – |
| Future income taxes (Notes 3 and 12) | **179,192** | 130,302 |
| Future site restoration (Note 8) | **1,569** | 1,359 |
| | **476,113** | 366,476 |
| **SHAREHOLDERS' EQUITY** | | |
| Capital stock (Note 9) | **116,572** | 94,472 |
| Retained earnings | **101,288** | 63,324 |
| | **217,860** | 157,796 |
| | **$ 693,973** | $ 524,272 |

Commitments and contingencies (Note 15)

On behalf of the Board

Director
Chairman of the Board

Director
Chairman of the Audit, Finance and Risk Committee

See accompanying notes to the consolidated financial statements.

# Compton Petroleum Corporation
## Consolidated Statements of Earnings and Retained Earnings

| *Year ended December 31,* | **2001** | 2000 | 1999 |
|---|---|---|---|
| *($000s, except per share data)* | | | |
| **Revenue** | | | |
| Oil and gas revenues | **$ 244,970** | $ 213,376 | $ 97,016 |
| Royalties, net | **(55,919)** | (44,695) | (16,105) |
| | **189,051** | 168,681 | 80,911 |
| **Expenses** | | | |
| Operating | **40,222** | 31,571 | 20,521 |
| General and administrative | **6,302** | 5,915 | 4,222 |
| Interest | **12,863** | 12,772 | 6,939 |
| Depletion and depreciation | **50,450** | 41,767 | 20,160 |
| | **109,837** | 92,025 | 51,842 |
| **Earnings before taxes** | **79,214** | 76,656 | 29,069 |
| **Taxes** | | | |
| Future income taxes (Note 12) | **22,248** | 35,707 | 11,782 |
| Capital taxes | **1,330** | 890 | 199 |
| | **23,578** | 36,597 | 11,981 |
| **Net earnings** | **55,636** | 40,059 | 17,088 |
| **Retained earnings,** beginning of year | **63,324** | 27,197 | 10,735 |
| | **118,960** | 67,256 | 27,823 |
| Change in accounting policies (Note 3) | **(3,585)** | (380) | – |
| Premium on redemption of shares (Note 9) | **(14,087)** | (3,552) | (626) |
| **Retained earnings,** end of year | **$ 101,288** | $ 63,324 | $ 27,197 |
| **Earnings per share** | | | |
| Basic | **$ 0.51** | $ 0.37 | $ 0.18 |
| Diluted (Note 11) | **$ 0.48** | $ 0.36 | $ 0.17 |

See accompanying notes to the consolidated financial statements.

# Compton Petroleum Corporation
## Consolidated Statements of Cash Flow

| *Year ended December 31,* | **2001** | 2000 | 1999 |
|---|---|---|---|
| *($000s, except per share data)* | | | |
| **Cash derived from (applied to)** | | | |
| **OPERATING** | | | |
| Net earnings | **$ 55,636** | $ 40,059 | $ 17,088 |
| Items not affecting cash | | | |
| Depletion and depreciation | **50,450** | 41,767 | 20,160 |
| Future income taxes | **22,248** | 35,707 | 11,782 |
| Cash flow from operations | **128,334** | 117,533 | 49,030 |
| Change in non-cash working capital (Note 14) | **(7,266)** | (13,346) | (11,201) |
| | **121,068** | 104,187 | 37,829 |
| **FINANCING** | | | |
| Increase in long-term debt | **36,304** | 23,662 | 41,205 |
| Capital lease obligations | **(38)** | – | – |
| Proceeds from share issues, net | **41,558** | 11,844 | 18,126 |
| Redemption of common shares | **(17,774)** | (5,564) | (1,187) |
| | **60,050** | 29,942 | 58,144 |
| Cash available for investing activities | **181,118** | 134,129 | 95,973 |
| **INVESTING** | | | |
| Property and equipment additions | **(147,993)** | (118,153) | (71,216) |
| Corporate acquisitions (Note 4) | **(29,669)** | – | (49,833) |
| Dispositions (acquisitions), net | **(10,243)** | (241) | 15,351 |
| Site restoration | **(473)** | (368) | (507) |
| Change in non-cash working capital (Note 14) | **12,312** | (307) | (4,828) |
| | **(176,066)** | (119,069) | (111,033) |
| **Change in cash** | **5,052** | 15,060 | (15,060) |
| **Cash,** beginning of year | **–** | (15,060) | – |
| **Cash,** end of year | **$ 5,052** | $ – | $ (15,060) |
| **Cash flow from operations per share** | | | |
| Basic | **$ 1.17** | $ 1.10 | $ 0.50 |
| Diluted (Note 11) | **$ 1.12** | $ 1.06 | $ 0.49 |

See accompanying notes to the consolidated financial statements.

*(Tabular amounts in $000s, unless otherwise stated)*

*December 31, 2001*

## 1. NATURE OF OPERATIONS

The Company is engaged primarily in the exploration for and production of petroleum and natural gas reserves in a single cost centre being the Western Canadian Sedimentary Basin.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### a) Basis of Presentation

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles within the framework of the accounting policies summarized below.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries from the respective dates of acquisition. Inter-company transactions and balances are eliminated upon consolidation.

### b) Petroleum and Natural Gas Properties

i) Capitalized costs

The Company follows the full cost method of accounting for its petroleum and natural gas operations. Under this method all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expenses, interest on debt directly related to certain acquisitions, and costs of drilling both productive and non-productive wells. Proceeds from the sale of properties are applied against capitalized costs, without any gain or loss being realized, unless such sale would significantly alter the rate of depletion and depreciation.

ii) Depletion and depreciation

Depletion of exploration and development costs and depreciation of production equipment is provided using the unit-of-production method based upon estimated proved petroleum and natural gas reserves. The costs of significant undeveloped properties are excluded from costs subject to depletion. For depletion and depreciation purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Depreciation of office equipment is provided for on a declining-balance basis at 20 percent per annum.

iii) Ceiling test

In applying the full cost method, the Company calculates a ceiling test whereby the carrying value of petroleum and natural gas properties and production equipment, net of recorded future income taxes and the accumulated provision for site restoration and abandonment costs, is compared annually to an estimate of future net cash flow from the production of proved reserves. Net cash flow is estimated using year end prices, less estimated future general and administrative expenses, financing costs and income taxes. Should this comparison indicate an excess carrying value, the excess is charged against earnings as additional depletion and depreciation.

iv) Future site restoration and abandonment costs

Estimated costs of future site restoration and abandonments, net of recoveries, are provided for over the life of proved reserves on a unit-of-production basis. An annual provision is recorded as additional depletion and depreciation. Costs are based on engineering estimates of the anticipated method and extent of site restoration in accordance with current legislation, industry practices and costs. The accumulated provision is reflected as a non-current liability and actual expenditures are charged against the accumulated provision when incurred.

c) **Financial Instruments**

Financial instruments consist mainly of accounts receivable and other, accounts payable and bank debt. Unless otherwise disclosed, there are no significant differences between the carrying value of these financial instruments and their estimated fair value.

From time to time, the Company may employ financial instruments to manage exposure related to Canada/U.S. exchange rates and commodity prices. Gains and losses on exchange rates and commodity price hedges are included in revenues upon sale of the related production.

d) **Joint Operations**

Certain petroleum and natural gas activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

e) **Flow-through Shares**

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Future income tax liability is increased and capital stock is reduced by the estimated tax benefits transferred to shareholders.

f) **Per Share Amounts**

Basic earnings per common share and cash flow from operations per common share are computed by dividing earnings and cash flow from operations by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares.

g) **Use of Estimates**

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from and affect the results reported in these consolidated financial statements.

h) **Hedging Activities**

Settlement of crude oil and natural gas swap agreements, which have been arranged as a hedge against commodity price, are reflected in product revenues at the time of sale of the related hedged production.

i) **Income Taxes**

Income taxes are recorded using the liability method of tax allocation. Future income taxes are calculated based on temporary differences arising from the difference between the tax basis of an asset or liability and its carrying value using tax rates anticipated to apply in the periods when the temporary differences are expected to reverse.

j) **Revenue Recognition**

Crude oil and natural gas revenue is recognized in income when reserves are produced and sold.

k) **Stock-based Compensation Plans**

The Company has a stock-based compensation plan, which includes stock options and an employee stock savings plan.

Consideration received from employees or directors on the exercise of stock options under the stock option plan is recorded as share capital. Compensation costs have not been recognized for fixed share options granted to employees and directors. The Company matches employee contributions to the stock savings plan and these cash payments are recorded as compensation expense.

### l) Reclassification

Certain prior year amounts in the Consolidated Statements of Cash Flow for 1999 have been reclassified to conform to current year presentation.

## 3. CHANGES IN ACCOUNTING POLICIES

a) During the fourth quarter of 2001, the Company early adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) with respect to accounting for Stock Based Compensation. The Company has adopted this accounting policy retroactively, without restating the financial statements of prior periods. As a result, the Company recorded a reduction in retained earnings of $3.6 million, an increase in accounts payable of $6.2 million and a decrease in future income tax liability of $2.6 million.

b) Effective January 1, 2000, the Company adopted the new recommendations of the CICA with respect to accounting for future income taxes. Under the new recommendations the liability method of tax allocation is used, which is based upon the difference between financial and tax bases of assets and liabilities.

The Company has adopted this change in accounting policy retroactively, without restating the financial statements of prior periods. As a result, the Company recorded a reduction in retained earnings of $0.4 million, an increase in property and equipment of $68.1 million and an increase in the future income tax liability of $68.5 million, as at January 1, 2000.

c) The CICA approved a new standard for the compilation and disclosure of per share amounts. In year 2000, the Company retroactively adopted the new standard. Under this standard, the treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

## 4. ACQUISITION

Effective July 16, 2001, the Company acquired all of the issued and outstanding shares of Hornet Energy Ltd. ("Hornet"), a public company involved in the exploration, development and production of oil and natural gas primarily in Southern Alberta. The acquisition has been accounted for by the purchase method of accounting and the consolidated financial statements include the results of operations from date of acquisition. The fair value of the assets acquired is as follows:

| | |
|---|---|
| **Net assets acquired** | |
| Petroleum and natural gas properties | $ 54,276 |
| Future income taxes | (12,236) |
| | 42,040 |
| Working capital deficiency | (1,460) |
| Long-term debt | (10,320) |
| Capital lease obligations | (591) |
| | $ 29,669 |
| **Consideration** | |
| Cash | $ 29,134 |
| Transaction costs | 535 |
| | $ 29,669 |

## 5. PROPERTY AND EQUIPMENT

| | 2001 | 2000 |
|---|---|---|
| Exploration and development costs | $ 635,508 | $ 455,565 |
| Accumulated depletion | (109,091) | (64,058) |
| | 526,417 | 391,507 |
| Production equipment and processing facilities | 88,727 | 55,529 |
| Office equipment | 2,808 | 2,154 |
| | 91,535 | 57,683 |
| Accumulated depreciation | (11,032) | (6,293) |
| | 80,503 | 51,390 |
| | $ 606,920 | $ 442,897 |

The Company does not capitalize any portion of its general and administrative expenses. During the year ended December 31, 2001 – nil (2000 – $0.7 million; 1999 – $0.2 million) of interest expense associated with certain property acquisitions and processing facilities was capitalized.

Future capital expenditures of $33.0 million (2000 – $37.1 million; 1999 – $26.7 million), as estimated by independent engineers, relating to the development of proved non-producing reserves have been included in costs subject to depletion, and undeveloped properties with a cost at December 31, 2001 of $161.0 million (2000 – $98.8 million; 1999 – $55.6 million), included in exploration and development costs, have not been subject to depletion.

## 6. CREDIT FACILITIES

| | 2001 | 2000 |
|---|---|---|
| Prime rate advances | $ – | $ 8,376 |
| Bankers' Acceptances | 230,000 | 175,000 |
| | $ 230,000 | $ 183,376 |

In July 2001, the Company renegotiated its senior credit facilities with a syndicate of Canadian financial institutions resulting in an increase to $240 million in the Company's credit facilities from $192 million at the start of the year. The senior credit facilities consist of a $230 million extendible revolving credit facility and a $10 million working capital facility. The senior credit facilities bear interest at the lenders' prime rate or at the Bankers' Acceptance rate or LIBOR plus a margin based on the ratio of total consolidated debt to cash flow, currently set at 0.125 percent, 1.125 percent and 1.125 percent respectively. These facilities mature on July 10, 2002. The Company and its lenders anticipate the facilities will be extended with similar terms and conditions. Accordingly, the facilities have been classified as a non-current liability.

The credit facilities are secured by a first fixed and floating charge debenture in the amount of $325 million covering all the Company's assets and undertakings.

## 7. CAPITAL LEASES

Certain leases relating to gas processing equipment, having costs in the aggregate of $601 thousand and accumulated depreciation of $36 thousand, are classified as capital leases and are included in property and equipment. These capital lease obligations were acquired as part of the Hornet acquisition referred to in Note 4. Each lease contains an option to purchase and has an implicit interest rate of 7.8 percent to 8.8 percent. Excluded from the following future capital lease payment obligations is interest in the amount of $92 thousand.

| | | |
|---|---|---|
| 2002 | $ | 104 |
| 2003 | | 323 |
| 2004 | | 36 |
| 2005 | | 38 |
| 2006 | | 52 |
| | | 553 |
| Less: current portion, included in accounts payable | | 104 |
| | $ | 449 |

## 8. SITE RESTORATION AND ABANDONMENTS

At December 31, 2001 total future removal and site restoration costs to be accrued over the life of the remaining proved reserves were estimated, net of recoveries, at $8.5 million (2000 – $5.4 million) of which $1.6 million (2000 – $1.4 million) have been accrued. This estimate is subject to change based on amendments to environmental laws and as new information concerning operations becomes available.

## 9. CAPITAL STOCK

**a) Authorized:**

Unlimited number of common shares

Unlimited number of preferred shares, issuable in series

**b) Issued and Outstanding:**

| | **2001** | | | 2000 | | |
|---|---|---|---|---|---|---|
| | **Number of shares** | | **Amount** | Number of shares | | Amount |
| Common shares | | | | | | |
| Balance, beginning of year | **108,783,649** | **$** | **94,472** | 108,047,882 | $ | 89,505 |
| Issued for cash, net | **7,345,604** | | **22,964** | 3,075,100 | | 6,825 |
| Issued for property | **241,997** | | **1,285** | 30,000 | | 78 |
| Issued for cash on exercise of warrants | **625,616** | | **1,095** | – | | – |
| Issued for cash on exercise of options | **314,584** | | **443** | 56,667 | | 76 |
| Repurchased for cash | **(4,206,000)** | | **(3,687)** | (2,426,000) | | (2,012) |
| Balance, end of year | **113,105,450** | **$** | **116,572** | 108,783,649 | $ | 94,472 |

During 2001, common shares issued for cash include 7,345,604 (2000 – 3,075,100) common shares issued on a flow-through basis. Under the terms of the current year flow-through agreements, the Company is required to expend $41.8 million on qualifying oil and natural gas expenditures prior to December 31, 2002. As at December 31, 2001, the Company had incurred qualifying expenditures in the amount of $16.2 million.

During the year, the Company repurchased for cancellation 4,206,000 common shares at an average price of $4.23 per share (2000 – 2,426,000 shares at an average price of $2.29 per share), pursuant to a normal course issuer bid. The excess of the purchase price over book value has been charged to retained earnings.

### c) Outstanding Warrants

In 1998, in conjunction with the disposition of certain facilities, the Company issued share purchase warrants to a third party, which entitled the holder to acquire 3,000,000 common shares of the Company. As at December 31, 2001, nil (2000 – 1,000,000; 1999 – 1,000,000) warrants were outstanding at an exercise price of $1.75 per share. The warrants were exercisable on the basis of 10,000 warrants for each $250,000 paid to the Company as an incentive fee under the terms of the disposition. During the year, a total of 625,616 warrants were exercised for gross proceeds of $1.1 million. The remaining warrants were cancelled.

### d) Shareholder Rights Plan

The Company has a Shareholder Rights Plan to ensure all shareholders are treated fairly in the event of a take-over offer or other acquisition of control of the Company.

Pursuant to the Plan, the Board of Directors authorized and declared the distribution of one Right in respect of each common share outstanding. In the event that an acquisition of 20 percent or more of the Company's shares is completed and the acquisition is not a permitted bid, as defined by the Plan, each Right will permit the holder to acquire, at the exercise price of $50.00, such number of common shares as have a market value equal to twice the exercise price.

## 10. STOCK-BASED COMPENSATION PLANS

The Company has implemented a Stock Option Plan, for directors, officers and employees. As of December 31, 2001, there were 12,750,000 common shares reserved for issuance to eligible participants. At December 31, 2001, 9,829,334 (2000 – 6,352,335) options with exercise prices between $0.60 and $4.30 were outstanding and exercisable at various dates to November 20, 2011. The exercise price of each option equals the market price of the Company's common shares on the date of the grant.

At the beginning of the year, the Company had a share appreciation rights plan of which, the financial statement effects of this plan were determined not to be significant to the financial statements due to the amount vested. During the year, this plan was cancelled and replaced by a fixed option plan with a variable component.

The following tables summarize the information about the share options as at December 31:

| | 2001 | | | 2000 | | |
|---|---|---|---|---|---|---|
| Fixed Options | Shares | | Weighted average exercise price | Shares | | Weighted average exercise price |
| Outstanding at beginning of year | 6,352,335 | $ | 1.08 | 6,081,334 | $ | 1.00 |
| Granted | 3,866,250 | $ | 3.57 | 500,000 | $ | 2.30 |
| Exercised | (314,584) | $ | 1.41 | (56,667) | $ | 1.34 |
| Cancelled | (74,667) | $ | 3.63 | (172,332) | $ | 1.45 |
| Outstanding at end of year | 9,829,334 | $ | 2.03 | 6,352,335 | $ | 1.08 |
| Options exercisable at year end | 7,009,889 | $ | 1.42 | 5,719,001 | $ | 1.00 |

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| Range of exercise prices | **Number outstanding at December 31, 2001** | **Weighted average remaining contractual life** | **Weighted average exercise price** | Number exercisable at December 31, 2001 | Weighted average exercise price |
| $0.60 – $1.25 | **4,380,000** | **5.17** | **$ 0.77** | 4,380,000 | $ 0.77 |
| $1.45 – $2.30 | **1,653,334** | **7.67** | **$ 1.87** | 1,436,667 | $ 1.83 |
| $2.98 – $3.50 | **1,922,900** | **9.75** | **$ 3.04** | 826,899 | $ 3.02 |
| $3.80 – $4.30 | **1,873,100** | **9.67** | **$ 4.10** | 366,323 | $ 3.94 |
| | **9,829,334** | | **$ 2.03** | 7,009,889 | $ 1.42 |

CICA Handbook section 3870 "Stock-based Compensation", establishes financial accounting and reporting standards for stock-based employee compensation plans as well as transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. The Company has elected to follow the intrinsic value method of accounting for stock-based compensation arrangements. Since all options were granted with an exercise price equal to the market price at the date of the grant, no compensation cost has been charged to income at the time of the option grants. Had compensation cost for the Company's stock options been determined based on the fair market value at the grant dates of the awards consistent with methodology prescribed by Handbook section 3870, the Company's net income and net income per share for the year ended December 31, 2001 would have been the pro forma amounts indicated below:

| | **2001** |
|---|---|
| Net earnings: | |
| As reported | **$ 55,636** |
| Pro forma | **$ 53,446** |
| Net earnings per common share – basic: | |
| As reported | **$ 0.51** |
| Pro forma | **$ 0.49** |
| Net earnings per common share – diluted: | |
| As reported | **$ 0.48** |
| Pro forma | **$ 0.47** |

Under the provisions of Handbook section 3870, the pro forma disclosures above include only the effects of stock options granted by the Company subsequent to January 1, 2001.

The weighted average fair market value of options granted in the year ended December 31, 2001 are $2.52 per option. The fair value of each option granted was estimated on the date of grant using the Modified Black-Scholes option-pricing model with the following assumptions:

| | **2001** |
|---|---|
| Risk-free interest rate | **5.4%** |
| Estimated hold period prior to exercise (years) | **10** |
| Volatility in the price of the Company's common shares | **53.75%** |

Handbook section 3870, also requires recognition of the compensation cost with respect to changes in intrinsic value for the variable component of fixed options granted during the year. During the year the Company recorded a compensation cost recovery of $280 thousand related to the outstanding variable component of these options at December 31, 2001. The liability related to the variable component of these options amounts to $3.9 million, which is included in accounts payable as at December 31, 2001.

## 11. PER SHARE AMOUNTS

In the calculation of diluted per share amounts, options under the stock option plan are assumed to have been converted or exercised on the later of the beginning of the year and the date granted. The treasury stock method is used to determine the dilutive effect of stock options. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options are used to repurchase common shares at the average market rate.

| Weighted average shares outstanding (thousands) | **2001** | 2000 | 1999 |
|---|---|---|---|
| Basic | **109,881** | 106,904 | 97,409 |
| Diluted | **114,844** | 110,645 | 100,800 |

## 12. INCOME TAXES

### a) Provision for Income Taxes

| | **2001** | 2000 | 1999 |
|---|---|---|---|
| Earnings before taxes | **$ 79,214** | $ 76,656 | $ 29,069 |
| Expected tax expense at combined federal and provincial rate of | **42.6%** | 44.6% | 44.6% |
| | **$ 33,745** | $ 34,204 | $ 12,965 |
| Increase (decrease) resulting from: | | | |
| Non-deductible Crown charges | **18,570** | 16,915 | 7,831 |
| Non-deductible depletion | **–** | – | 1,035 |
| Alberta royalty tax credits | **(213)** | (291) | (602) |
| Resource allowance | **(22,984)** | (17,486) | (7,207) |
| Statutory rate change | **(7,400)** | – | – |
| Other | **530** | 2,365 | (2,240) |
| Provision for future income taxes | **$ 22,248** | $ 35,707 | $ 11,782 |

## b) Future Income Taxes

Future income taxes consist of the following temporary differences:

| | 2001 | 2000 |
|---|---|---|
| Property and equipment | $ 157,792 | $ 136,351 |
| Timing of partnership items | 31,088 | – |
| Resource allowance rate reduction | (5,315) | (4,058) |
| Non-capital losses | (2,162) | – |
| Share issue costs | (1,542) | (1,385) |
| Future site restoration | (669) | (606) |
| Future income taxes | $ 179,192 | $ 130,302 |

# 13. FINANCIAL INSTRUMENTS

The Company is exposed to fluctuations in commodity prices, interest rates and Canada/U.S. exchange rates. The Company, when appropriate, utilizes financial instruments to manage its exposure to these risks.

## a) Commodity Price Risk Management

The Company enters into hedge transactions on crude oil and natural gas. The agreements entered into are forward transactions providing the Company with a range of fixed prices on the commodities sold. Oil and gas revenues for the year ended December 31, 2001 include gains of $3.7 million (2000 – $7.7 million loss; 1999 – $1.1 million loss) on these transactions.

The following contract was outstanding as at December 31, 2001:

i) to sell 4,000 GJ/d of natural gas at an AECO fixed price of $4.89 per GJ for the month of January 2002.

The estimated market value at December 31, 2001 of this transaction had the contract been settled at that time would be a gain of $167 thousand.

## b) Credit Risk Management

Accounts receivable include amounts receivable for oil and gas sales which are generally made to large credit worthy purchasers, and amounts receivable from joint venture partners which are recoverable from production. Accordingly, the Company views credit risks on these amounts as low.

The Company is exposed to losses in the event of non-performance by counter-parties to these financial instruments. The Company deals with major institutions and believes these risks are minimal.

## 14. CASH FLOW

Changes in non-cash working capital items increased (decreased) cash and cash equivalents as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Accounts receivable and other | $ (413) | $ (29,568) | $ (26,427) |
| Accounts payable | 5,459 | 15,915 | 10,398 |
| | $ 5,046 | $ (13,653) | $ (16,029) |
| Operating activities | $ (7,266) | $ (13,346) | $ (11,201) |
| Investing activities | 12,312 | (307) | (4,828) |
| | $ 5,046 | $ (13,653) | $ (16,029) |

Amounts paid during the year relating to interest expense and capital taxes are as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Interest paid | $ 13,054 | $ 13,639 | $ 6,576 |
| Capital taxes paid | $ 793 | $ 470 | $ 314 |

## 15. COMMITMENTS AND CONTINGENT LIABILITIES

a) The Company has committed to certain payments under operating leases over the next five years, as follows:

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Equipment | $ 1,740 | $ 1,131 | $ 203 | $ – | $ – |
| Office rental | 1,210 | 1,444 | 1,452 | 481 | – |
| | $ 2,950 | $ 2,575 | $ 1,655 | $ 481 | $ – |

b) Legal proceedings

The Company is involved in various legal claims associated with normal operations. These claims, although unresolved at the current time, are minor in nature and are not expected to have a material impact on the financial position or results of operations of the Company.

# historical summary

## Financial

| Financial | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|---|
| *($000s except per share amounts)* | | | | | | |
| Total revenue | **244,970** | 213,376 | 97,016 | 30,545 | 17,673 | 4,109 |
| **Cash flow from operations** | **128,334** | 117,533 | 49,030 | 17,537 | 10,036 | 1,780 |
| Per share – basic | **1.17** | 1.10 | 0.50 | 0.20 | 0.16 | 0.06 |
| – diluted | **1.12** | 1.06 | 0.49 | 0.17 | 0.14 | 0.05 |
| **Net earnings** | **55,636** | 40,059 | 17,088 | 6,604 | 3,725 | 540 |
| Per share – basic | **0.51** | 0.37 | 0.18 | 0.07 | 0.06 | 0.02 |
| – diluted | **0.48** | 0.36 | 0.17 | 0.06 | 0.05 | 0.01 |
| Shareholders' equity | **217,860** | 157,796 | 116,702 | 81,267 | 67,027 | 23,946 |
| Net debt | **208,299** | 153,440 | 158,641 | 93,308 | 44,920 | 836 |
| Capital expenditures | **190,467** | 118,472 | 130,459 | 69,901 | 92,987 | 21,514 |
| Common share data: | | | | | | |
| Share price ($ per share) | | | | | | |
| High | **6.19** | 3.80 | 3.00 | 1.95 | 2.25 | 1.10 |
| Low | **2.60** | 1.31 | 1.20 | 1.10 | 0.75 | 0.65 |
| Close | **4.20** | 3.77 | 2.40 | 1.65 | 1.60 | 0.85 |
| Total volume traded (000s) | **116,634** | 48,917 | 46,314 | 38,226 | 30,704 | 4,100 |
| Daily average traded | **468,000** | 195,000 | 184,000 | 152,000 | 123,000 | 76,000 |
| Weighted average outstanding (000s) | **109,881** | 106,904 | 97,409 | 88,731 | 62,358 | 29,626 |
| Issued and outstanding (000s) | **113,105** | 108,784 | 108,048 | 96,309 | 88,408 | 58,309 |

## Operating

| Operating | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|---|
| Established reserves: | | | | | | |
| Natural gas (bcf) | **401.0** | 337.5 | 289.0 | 235.3 | 157.7 | 54.7 |
| Liquids (light oil & ngls) (mbbls) | **16,834** | 16,719 | 15,615 | 10,387 | 4,792 | 2,947 |
| **Total oil equivalent (mboe) (6:1)** | **83,675** | 72,976 | 63,778 | 49,604 | 31,075 | 12,065 |
| % reserves proved | **86%** | 84% | 86% | 91% | 89% | 81% |
| % reserves natural gas | **80%** | 77% | 76% | 79% | 85% | 76% |
| Average daily production: | | | | | | |
| Natural gas (mmcf/d) | **101.1** | 85.1 | 63.7 | 33.1 | 16.2 | 4.7 |
| Liquids (light oil & ngls) (bbls/d) | **6,546** | 6,305 | 4,474 | 834 | 491 | 245 |
| **Total oil equivalent (boe/d) (6:1)** | **23,404** | 20,488 | 15,091 | 6,351 | 3,194 | 1,025 |
| % total production natural gas | **72%** | 69% | 70% | 87% | 85% | 76% |
| Undeveloped acreage: | | | | | | |
| Gross acres | **962,259** | 808,400 | 707,419 | 426,688 | 168,201 | 70,259 |
| **Net acres** | **700,695** | 610,640 | 502,208 | 314,281 | 139,769 | 63,140 |
| Average working interest | **73%** | 76% | 71% | 74% | 83% | 90% |
| Drilling: | | | | | | |
| Natural gas wells | **60** | 56 | 43 | 11 | 7 | 2 |
| Oil wells | **12** | 10 | 17 | 3 | 2 | 1 |
| Dry and abandoned | **23** | 30 | 23 | 9 | 2 | 1 |
| **Total, gross** | **95** | 96 | 83 | 23 | 11 | 4 |
| Total, net | **70.8** | 78.3 | 71.0 | 18.3 | 10.5 | 3.3 |
| Drilling success rate | **76%** | 69% | 72% | 61% | 82% | 85% |

depth of

# personnel

In 2001, Ernie Sapieha, President and CEO, and the team at Compton were honored with a Pinnacle Award for their entrepreneurial achievement in successfully building Compton to be a significant player in the Canadian oil and gas industry. Presented by Fraser Milner Casgrain LLP, the Pinnacle Awards recognize and honor individuals for their entrepreneurism. Ernie is proud to share this award with all Compton's people, recognizing their ability and determination to successfully meet the needs of the marketplace in an ever-changing economic environment and for playing a leading role in the community.

Compton people contribute as a Corporate Partner with Cecil Swanson Elementary School, providing assistance to help students aspire to the school motto, "Be the Best You Can Be" because "Excellence is Achievable." Compton has provided help in several areas, including English as a Second Language resource materials and the Lunch Bunch program.

### HEAD OFFICE

Ann McManus
Barb Kisilowski
Bill McCloskey
Brent Watson
Carol Moore
Carol Rau
Celia Roche
Chris Carson
Cristina Barney
Dale Yakabowich
Darlene Fletcher
Darlene Thibeau
Dean Bernhard
Della Kennedy
Derek Longfield
Devin Erfle
Diane Mack
Doug Proctor
Doug Voegtlin
Ernie Sapieha
Eugene Englot
Eva Kucewicz
Garry McCullough
Gary Follensbee
Gordi Harbourne
Greg Shpytkovsky
Hilary Shipley
Jerry Sapieha
Joan Chan
Joanne Bouffard
Kari Gertz
Kelly O'Hearn
Kim Davies
Kim Gardner
Kurt Armbruster
Lee Ann Graff
Liz Tanouye
Lori Teekasingh
Lynne MacLellan
Marc Junghans
Megan McDonald
Megan Shaback
Michael Muirhead
Moira Schneider
Murray Stodalka
Norm Hopkins
Norm Knecht
Pary Weiler
Paul Lyzaniwski
Poonam Joshi
Randy Pelletier
Ray Lee
Rob Okubo
Robby Braun
Robert Bogdan
Ron Pan
Ryan Phillips
Scott Sinclair
Shannon Mandryk
Sheena Tetz
Shubha Karsanji
Steven Peter
Terry Fink
Terry Mah
Theresa Kosek
Theresa Viani
Todd Oickle
Tracey Dawson
Trevor Keller
Wade Mrochuk

### FIELD EMPLOYEES

Alison Egeland
Anna Empringham
Charles Empringham
Cheryl Praski
Clark Williams
Dale Richardson
Dan Carrier
Darin McLarty
Darryl Jones
Deborah Wolfe
Don Prestie
Ernie Kitteringham
Gerald Deines
Gord Gorzitza
Kelly Turner
Ken Berg
Kerry Shearer
Les Regan
Mark Berlinguette
Rod Kenney
Tim Berg
Troy Macaulay

# board of directors

## biographies

**MEL F. BELICH,** Q.C., Chairman

*Group Vice President – International, Enbridge Inc. (energy transportation and distribution company)*

Mr. Belich has been one of Compton's directors since 1993 and provides strong business experience, corporate governance guidance and legal perspective. Mr. Belich is Chairman of Compton's Corporate Governance and Compensation Committee. Mr. Belich is currently Group Vice President – International, Enbridge Inc. He was a senior partner in the law firm Milner Fenerty (now Fraser Milner Casgrain LLP), where he held a series of senior management and counsel positions during his 20 years with that firm. He was appointed Queen's Counsel in 1996.

**IRVINE J. KOOP,** P. Eng.

*Independent Retired Petroleum Executive*

Mr. Koop has been one of Compton's directors since 1996 and is a professional engineer with extensive experience in major oil and gas and energy companies in senior management positions and directorships. Mr. Koop is Chairman of Compton's Audit, Finance and Risk Committee. He was Executive Vice-President and President and Chief Executive Officer, Pipelines and Midstream, Westcoast Energy Inc. (an energy products and services company recently acquired by Duke Energy Corporation), and was the former President and Chief Executive Officer of Numac Energy (an oil and gas company acquired by Anderson Exploration).

**JOHN W. PRESTON**

*Account Executive – Sun Microsystems of Canada Inc. (computer company)*

Mr. Preston has been one of Compton's directors since 1993 and provides strong business experience and special expertise with his knowledge of geophysical software applications. Prior to his current position at Sun Microsystems, he held equivalent management positions with various telecommunications and computer companies.

**JEFFREY T. SMITH,** P. Geol.

*Independent Retired Petroleum Executive*

Mr. Smith has been one of Compton's directors since 1999 and is a professional geologist with extensive experience in public oil and gas companies in various senior management positions and directorships. Mr. Smith is Chairman of Compton's Engineering, Environmental, Health and Safety Committee. He was Chief Operating Officer of Northstar Energy Corporation (an oil and gas company acquired by Devon Energy).

**ERNEST G. SAPIEHA,** C.A.

*President & Chief Executive Officer – Compton Petroleum Corporation*

Mr. Sapieha has held his current position at Compton since the Company's inception in 1993 and is a Chartered Accountant. He has more than 20 years of experience in the oil and gas industry in numerous public oil and gas corporations.

# corporate information

## HEAD OFFICE

**COMPTON PETROLEUM CORPORATION**
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## DIRECTORS

**M.F. BELICH,** Q.C.[1]
*Chairman*
Enbridge International Inc.
Chairman
Compton Petroleum Corporation

**I.J. KOOP,** P.Eng.[2]
Independent Retired Petroleum Executive

**J.W. PRESTON**
*Account Executive*
Sun Microsystems

**J.T. SMITH,** P.Geol.[3]
Independent Retired Petroleum Executive

**E.G. SAPIEHA,** C.A.
*President & C.E.O.*
Compton Petroleum Corporation

1 Chairman, Corporate Governance and Compensation Committee
2 Chairman, Audit, Finance and Risk Committee
3 Chairman, Engineering, Environmental, Health and Safety Committee

## OFFICERS

**E.G. SAPIEHA,** C.A.
*President & C.E.O.*

**N.G. KNECHT,** C.A.
*V.P. Finance & C.F.O.*

**K.N. DAVIES,** P.Geoph.
*V.P. Exploration*

**M.J. STODALKA,** P.Eng.
*V.P. Engineering & Operations*

## CONSULTING ENGINEERS

OUTTRIM SZABO ASSOCIATES LTD.

## BANKERS

BANK OF MONTREAL
THE BANK OF NOVA SCOTIA
THE TORONTO-DOMINION BANK

## LEGAL COUNSEL

FRASER MILNER CASGRAIN LLP

## AUDITORS

GRANT THORNTON LLP

## TRANSFER AGENT AND REGISTRAR

COMPUTERSHARE TRUST COMPANY OF CANADA

## STOCK EXCHANGE LISTING

THE TORONTO STOCK EXCHANGE
Trading Symbol: CMT

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